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SESSION 1930

HOUSE OF COMMONS

SELECT STANDING COMMITTEE

ON

RAILWAYS AND SHIPPING

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 1—TUESDAY, MAY 13, 1930

WITNESSES:

Sir Henry Worth Thornton, K.B.E., President and Chairman of the Board of Directors; S. J. Hungerford, Vice-President; R. C. Vaughan, Vice-President; W. D. Robb, Vice-President; S. W. Fairweather, Director, Bureau of Economics; T. H. Cooper, General Auditor.

OTTAWA
F. A. ACLAND
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
1930

MEMBERS OF THE COMMITTEE

SIR EUGENE Fiset,
Chairman.

M. McLEAN,
Vice Chairman.

Messieurs:

Bell, (*St. Antoine*),
Cantley,
Chaplin,
Crerar,
Duff,
Fansher (*Lambton East*),
Geary,

Gray,
Hanson,
Jenkins,
Milne,
Power,
Stevens.

JOHN T. DUN,
Clerk of the Committee.

ORDERS OF REFERENCE

HOUSE OF COMMONS

THURSDAY, 10th April, 1930.

Resolved,—That Standing Order 63 of the House of Commons, relating to appointment of Select Standing Committees of the House, be amended by adding to the Select Standing Committees of the House for the present session, a Select Standing Committee on Railways and Shipping, owned, operated and controlled by the Government, to which will be referred the accounts and the estimates of the Canadian National Railways and the Canadian Government Merchant Marine for the present session, for consideration and for report to the House, provided, however, that nothing in this resolution shall be construed to curtail in any way the full right of discussion in Committee of Supply; and that the said Committee consist of Messrs. Bell (*St. Antoine*), Cantley, Chaplin, Crerar, Duff, Fansher (*Lambton East*), Fiset (Sir Eugene), Geary, Gray, Hanson, Jenkins, McLean (*Melfort*), Milne, Power, and Stevens.

Attest.

ARTHUR BEAUCHESNE,
Clerk of the House.

MONDAY, 5th MAY, 1930.

Ordered,—That the Estimates of the Canadian National Railways, Canadian National Steamships and Maritime Freight Rates Act, presented this day, be referred to the said Committee.

Attest.

ARTHUR BEAUCHESNE,
Clerk of the House.

MONDAY, 5th MAY, 1930.

Ordered,—That the following Bills be referred to the said Committee, viz: Bill No. 130, An Act respecting the Canadian National Railways, and to provide for the refunding of certain maturing financial obligations.

Bill No. 131, An Act respecting the Canadian National Railways, and to provide for certain financing in connection with certain lines of railway located principally in the State of Vermont.

Attest.

ARTHUR BEAUCHESNE,
Clerk of the House.

TUESDAY, 13th MAY, 1930.

Ordered,—That the said Committee be given leave to sit while the House is sitting.

That 500 copies of proceedings and evidence which may be taken by the said Committee be printed from day to day, as required, and that Standing Order 64 be suspended in relation thereto.

Attest.

ARTHUR BEAUCHESNE,
Clerk of the House.

REPORTS OF THE COMMITTEE

FIRST REPORT

TUESDAY, 13th MAY, 1930.

The Select Standing Committee on Railways and Shipping owned, operated and controlled by the Government beg leave to present the following as a

FIRST REPORT

Your Committee recommend:—

1. That your Committee be given leave to sit while the House is sitting.
2. That 500 copies of proceedings and evidence which may be taken by your Committee be printed from day to day, as required, and that Standing Order No. 64 be suspended in relation thereto.

All of which is respectfully submitted.

SIR EUGENE Fiset,
Chairman.

(First Report concurred in 13th May, 1930)

MINUTES OF PROCEEDINGS

ROOM 231, HOUSE OF COMMONS,

TUESDAY, May 13, 1930.

The Select Standing Committee on Railways and Shipping owned, operated and controlled by the Government met at 11 a.m.

Members present: Messrs. Cantley, Chaplin, Crerar, Fansher (*Lambton East*), Fiset, Sir Eugène, Geary, Gray, Hanson, McLean, (*Melfort*), Milne.

In attendance: Sir Henry Thornton and other officials of the Canadian National Railways Company. Mr. Smart, Deputy Minister of Railways and Canals. Mr. Anderson, Department of Railways and Canals.

On motion of Mr. Crerar, Sir Eugène Fiset was appointed Chairman, and Mr. McLean (*Melfort*) was appointed Vice Chairman.

Mr. McLean took the Chair.

Copies of a statement "Canadian National Railways—Analysis of 1929 Operations as Compared with 1928" were distributed to the members of the Committee.

Sir Eugène Fiset, having arrived, took the Chair.

Sir Henry Thornton made a few observations respecting the operations of the Canadian National Railways during 1929 and, thereafter, pages 1 to 6 of the statement were considered.

On motion of Mr. Hanson, *Resolved*, That leave be asked to sit while the House is sitting.

On motion of Mr. Hanson, *Resolved*, That leave be asked to print the proceedings of the Committee and evidence taken.

The Committee adjourned at 1 p.m. until to-morrow, 14th May, at 11 a.m.

JOHN T. DUN,

Clerk of the Committee.

MINUTES OF EVIDENCE

Room 231,

HOUSE OF COMMONS,

TUESDAY, May 13, 1930.

The Select Standing Committee on Railways and Shipping met at 11 o'clock a.m., the Chairman, Sir Eugène Fiset, in the chair.

The VICE-CHAIRMAN: I assume that this morning, Sir Henry, you want to go over the annual report. That is the usual procedure unless the committee wishes it otherwise.

Sir HENRY THORNTON: The members of the committee have, of course, copies of the annual report, and I would ask that there be distributed to each member of the committee an analysis that has been prepared as to the 1929 operations as compared with 1928. That is pretty much the same information which we had in past years distributed to the committee except that I think it is in a little more complete and elaborate form this year. As soon as those reports have been distributed we will go ahead.

The pamphlet which you each have is in a fair amount of detail and reveals the outstanding features in connection with the gross earnings and the expenses. I think possibly we could make time best by going through this pamphlet which you have, and I think that after that is finished it will have probably answered 75 or more per cent of the questions that might arise, although there will no doubt be certain details with respect to which some members of the committee will want some information. Is it your pleasure, Mr. Chairman, that we should take this pamphlet and go through it?

The ACTING CHAIRMAN: Unless the committee decide otherwise.

Sir HENRY THORNTON: I think that is the course we followed last year.

In a preliminary way I might briefly state that the outstanding facts in connection with the railway's operations for last year are so well known that they hardly need any comment from me. Suffice it to say that during the year 1929 business was exceptionally good and showed marked improvement over the previous year until the middle of the summer. At that time there became evidences of the probable crop shortage. However, at that time the equipment of the railway company had been distributed throughout the west, as is our habit, for the movement of the crop; that expense had already been borne and could not, in any sense, be recalled. Then there came the crop shortage and the failure of the crop to move normally which severely reduced the gross earnings of the transportation companies of Canada—not only ours but also the Canadian Pacific. That resulted in very material reductions in the net revenue of the company. It came with a certain degree of suddenness, and, as I stated a moment ago, a very considerable expense had already been incurred by preparing for the crop movement which failed to materialize.

Mr. HANSON: Through no fault of the railway.

Sir HENRY THORNTON: We had to take the necessary precautions to move the crop, because those preparations commence about the middle of the spring and have to be carried out, otherwise we might be caught with a crop to move and no equipment to move it in. Well, we had taken such steps in the meanwhile as prudence and good business judgment would indicate to meet the situation, but we have tried to avoid doing those things which would prejudice the interests of the company and bring distress to our employees, and create a feeling of depression in the country. That briefly represents the situation as a whole.

By Mr. Hanson:

Q. I notice on the first page that the decrease is approximately sixteen and three-quarter million dollars, of which you attribute fifteen and a half million to failure to move the crop, alone?—A. Yes, that is practically the whole thing. In other words, had the crop moved normally, notwithstanding the fact that it was a relatively short crop our position would have been materially better.

Q. Eventually do you expect to retrieve any of that by the moving of the crop?—A. The grain eventually has to move. It is commencing to move now, and we hope that from now onwards the grain movement will be expedited; and we also hope that with a good crop this year, and a normal movement, we shall be able to retrieve a fair amount of what has so far been lost.

I think with that statement I will ask Mr. Fairweather to take the pamphlet which you have and read it. I will take the liberty of interrupting him from time to time and suggesting that we might skip certain items.

Mr. FAIRWEATHER:

ANALYSIS OF 1929 OPERATIONS AS COMPARED WITH 1928

NET REVENUE

The operations of the Canadian National Railways for the year ending December 31, 1929, resulted in a net revenue from railway operations of \$45,062,080, and while this is a decrease of \$13,321,497 from the record established last year, it is practically equal to the figure obtained in 1927, which, up to that time, had been the record. The early months of 1929 gave every indication of revenues in excess of the 1928 record, but the relatively poor crops and the disturbed economic condition in the Fall of the year caused a large decrease in gross revenue and adversely affected the net. The following table shows the monthly results of operation for the years 1928 and 1929, and reveals at a glance the disturbance in the Fall months:—

—	Gross Revenue		Operating Expenses		Net Revenue from Railway Operation	
	1928	1929	1928	1929	1928	1929
	\$	\$	\$	\$	\$	\$
January.....	18,871,671	18,177,685	16,550,660	16,092,944	2,321,011	2,084,741
February.....	19,588,702	19,614,509	16,120,491	16,178,822	3,468,211	3,435,687
March.....	21,157,650	22,173,633	16,422,678	16,843,293	4,734,772	5,330,340
April.....	19,811,399	22,455,244	16,927,113	18,012,064	2,884,286	4,443,180
May.....	21,751,337	22,527,219	18,095,900	19,373,150	3,655,437	3,154,069
June.....	22,032,767	22,196,921	19,226,109	19,755,993	2,806,658	2,440,928
July.....	23,291,805	23,363,406	19,673,357	19,708,424	3,618,448	3,654,982
August.....	24,429,340	22,815,825	18,345,027	18,225,901	6,084,313	4,589,924
September.....	25,383,151	23,383,862	18,869,490	18,190,524	6,513,661	5,193,338
October.....	30,154,743	23,979,427	19,831,429	18,154,912	10,323,314	5,824,515
November.....	26,558,312	20,204,002	19,419,132	17,228,242	7,139,180	2,975,760
December.....	23,601,044	18,987,240	18,766,758	17,052,624	4,834,286	1,934,616
Total.....	276,631,921	259,878,973	218,248,344	214,816,893	58,383,577	45,062,080

Mr. GEARY: The operating expenses during the last few months decreased. Would this decrease be attributable entirely to lack of operation or to some economies in operation?

Sir HENRY THORNTON: That, I think, is explained later on. You will find that the answer to your question will appear under Operating Expenses on the second page.

Mr. FAIRWEATHER:

GROSS REVENUE

The gross revenues for 1929 amounted to \$259,878,973, representing a decrease from 1928 of \$16,752,948, or 6 per cent. This decrease is almost entirely due to the reduced crop in the Prairie Provinces and to marketing conditions, as a result of which a larger portion of the crop remained in Canada at the end of the year than in previous years. The decrease in revenue from grain shipments alone amounted to \$15,509,311. The non-operation of harvester excursions, due to the small crop and the changed method of harvesting, decreased passenger revenue by \$1,250,000. Another disturbing feature was the collapse of stock market values and the resulting lethargy in business during November and December.

The disturbance brought about by these conditions in the freight traffic of the System may be seen from the following:—

	Tons Carried	Percentage of Total	+Increase of —Decrease over 1928	Percentage of +Increase or —Decrease
Products of Agriculture.....	10,142,252	16.56	—4,541,842	—30.93
Products of Animals.....	1,386,827	2.26	— 64,922	— 4.47
Products of Mines.....	21,923,729	35.79	+ 896,969	+ 4.27
Products of Forests.....	8,938,340	14.59	—1,083,674	—10.81
Products of Manufactures and Miscellaneous	18,863,730	30.80	+ 535,929	+ 2.92
	61,254,878	100.00	—4,257,540	— 6.50

Mr. HANSON: The products of agriculture are very large, but I am rather surprised to learn that the products of the forest have decreased.

Sir HENRY THORNTON: I think that was largely due to the disturbed condition of the pulp and paper industry. The output has been reduced, and there has been a disturbance in respect to price. That is the explanation.

Mr. HANSON: Is not the gross tonnage in excess of the previous year?

Sir HENRY THORNTON: No.

Mr. HANSON: I think that the pulp and paper shows an increase.

Mr. FAIRWEATHER: Paper is, of course, a manufactured article. Pulp-wood shows a decrease of 843,000 tons.

Mr. HANSON: Is paper listed under the product of manufacture?

Sir HENRY THORNTON: Manufactures.

Mr. HANSON: Oh, well, that accounts for it.

Mr. FAIRWEATHER:

Further effects were a decrease in the average haul of a ton of freight from 315.26 miles to 283.34 miles—a 10 per cent decrease; and an increase in the revenue per ton mile from 1.014 cent to 1.116 cent, or 10 per cent. In percentages freight revenues decreased 7.54 per cent, revenue tons decreased 6.50 per cent, and revenue ton miles decreased 15.97 per cent.

Passenger revenues decreased \$2,174,138 or 6.36%; passengers carried decreased 610,528—3.77%. Passenger miles decreased 118,613,831, or 9.16%. The average revenue per passenger was \$2.05 in 1929 as compared with \$2.11 in 1928, and the average revenue per passenger mile was 2.732 cents as compared with 2.641 cents in 1928, an increase of .082 cent, or 3.1%. Express revenue at \$13,381,328 shows an increase of \$73,954 over 1928, or .56%. Revenues from carriage of mail amounted to \$2,995,337, a decrease of \$103,875 from the previous

year. There was in reality an increase in the volume of mail traffic and a corresponding increase in mail revenue earned in the year. The 1928 accounts, however, contained an item of \$170,000 for back mail pay. Telegraph and telephone revenues at \$6,122,152 show a satisfactory increase of \$693,240, or 12.76%. Other revenue of a miscellaneous nature amounted to \$11,713,358, an increase of \$543,922, or 4.86%.

Mr. HANSON: Passenger revenue seems to be on the toboggan. Is that due to the competition of the motor bus or motor truck?

Sir HENRY THORNTON: I do not know how we can explain that. I would say certainly a fair proportion is due to highway competition, the larger use of the automobile by tourists with the continual improvements in roads, there is a tendency on the part of the tourist to travel in his own vehicle.

Mr. HANSON: That is almost a permanent condition.

Sir HENRY THORNTON: That is almost a permanent condition, and it is becoming more prevalent, although there is this comforting fact in it, that the tourist who comes to Canada in his automobile, probably leaves more money behind him than he who comes on the railway train, because he has to buy gas and oil, and pay garage expenses, but still he has to go to the hotel.

Mr. HANSON: There is not much satisfaction to the railway from that.

Sir HENRY THORNTON: There is not much satisfaction to the railway, but he does leave that much more money in the country, and it does, indirectly, have a certain advantage to the railway company. For instance, it has been estimated, and I think conservatively, that tourists leave annually in Canada, \$300,000,000. That is a fine business because, as far as the country as a whole is concerned, it is all net profit, it is all spent here.

Mr. HANSON: In view of the decrease of passenger earnings, how do you justify increasing the speed of the new trains? I am not questioning you, but I would just like to know.

Sir HENRY THORNTON: It is quite simple, and I fully thought that question would be raised. The object of a railway company is to fill its trains, to get more business. The better service you give the public, the more competitive business you are going to get. For the last seven years we have been steadily improving our roadbed, and our equipment. We have introduced automatic signals and all of those transportation facilities which permit higher speeds and better use of the property. That situation having now been developed, we decided that we could cut the speed of our trains and I take it that you are referring to the service between Montreal and Toronto and Chicago, that we could increase the speed of those trains and reduce the running time, thereby attracting more business to our line. That is the reason we did it, to get more business. The better facilities you can offer the public, the more business you get, and those trains, I venture to say, will prove highly profitable. For example, the way improved facilities help business; I think it was in 1923 or 1924, we inaugurated a service between Montreal, Philadelphia, Washington and points south, by way of the Central Vermont Railway, through the Pennsylvania Station. Such train had never been run before; there was no connection, without changing cars between Canada to southern points in the United States. For about a year that train just broke about even; to-day it is a highly profitable service and, far and away, the most highly profitable we have on the the railway. In other words, that train has built up for itself a definite patronage, and after all, if all our trains paid as well as the Montrealer and the Washingtonian, we would be making money on our passenger service instead of losing it. The same applies to the new service inaugurated between Montreal and Toronto

and Chicago. That places, in point of speed, an improved facility at the disposal of the public, and we believe that those trains will be profitable. They have certainly shown very satisfactory results so far.

Mr. GEARY: Does that train run without a stopover in New York?

Sir HENRY THORNTON: You are speaking of the train between Montreal and Washington. Those trains simply pass through New York.

Mr. GEARY: There used to be a stopover there.

Sir HENRY THORNTON: Perhaps there would be ten minutes for changing engines. There used to be a stopover; there was no connection there, but since this train has been put on, it runs straight through New York.

Mr. HANSON: Sir Henry, there is only a limited amount of business to be done between the points you refer to, Montreal and Chicago we will say, so any business you get is at the expense of your competitor.

Sir HENRY THORNTON: I would not quite agree with that.

Mr. HANSON: Any business you have must necessarily be at the expense of your competitor.

Sir HENRY THORNTON: I would not say that. There must always be a certain amount of business that is competitive, but we find that the better the facilities you give, the more you excite general railway travel. Let us take these trains between Chicago and Montreal. Now Montreal and Quebec are to-day great Atlantic ports, the St. Lawrence water route every year is appealing every year to a large proportion of the people in the United States, particularly those west of Chicago, who are going abroad, in competition with New York, for example. Montreal is becoming more and more an important North American business city. Formerly people might go abroad through New York, but with the superior advantages of the St. Lawrence route, with the fast trains from Chicago to Montreal, and vice versa, we intend to popularize the St. Lawrence water route, and attract people to Canadian ports as compared to American ports. It is quite conceivable that if there were not good train service between Chicago and Montreal, people going abroad might go to New York, spend a day or two there, then come up to Montreal and take ship from that point. But, with the good service from Chicago and points west in the United States, we attract passengers to travel on our train. It is true that there is competition, and I think it is a very good thing. It keeps us on our toes and it does the same for our competitors, but the point is this, that as soon as you offer the public some kind of new facility, some kind of new service, they never had before, more and more people will take advantage of it, in other words, it excites railway travel.

Mr. HANSON: That is an element, but a certain proportion is at the expense of your competitor.

Sir HENRY THORNTON: Certainly.

Mr. CANTLEY: What is your passenger traffic's total loss?

Sir HENRY THORNTON: That is a pretty difficult question to answer right off the bat, Colonel.

Mr. CANTLEY: You were able to give it to us last year.

Sir HENRY THORNTON: I think we said something like ten million dollars last year, I would not be certain. We can answer that right away.

Mr. GEARY: While that is being looked up, is there reflected in those figures the loss of revenue from harvesters' excursions?

Sir HENRY THORNTON: Oh, yes.

Mr. GEARY: That would be quite an item.

Sir HENRY THORNTON: It is a million and a quarter.

Mr. GEARY: I know that it is reflected in all these figures in this particular paragraph.

Sir HENRY THORNTON: About ten million dollars a year, Colonel, is the answer to your question.

Mr. HANSON: That is what you lose in your passenger service.

Mr. CANTLEY: Well, that amount, I think, has grown considerably; I think there was a time when it was about six million dollars.

Sir HENRY THORNTON: That may be, I do not know; that is, gross. You can get the other figures to-day, but on the other hand, it is not quite fair to assume that because from the arithmetical point of view, you are losing ten million dollars in passenger business that is all loss. Now, our experience in passenger loss is pretty much the same as every continental railway on the North American continent. I do not think any of us are making any money at all out of our passenger business as a whole, but you have got to maintain passenger services and you have got to maintain good passenger services in the interests of the enterprise and the country as a whole. In other words, we cannot shut up the passenger department. We cannot divest ourselves of our passenger services. We have got to continue passenger services, and if we are going to continue them they must be first-class. There is no use having anything on a railroad unless it is good. If it is not good, do not have it. All those facilities for travel and inter-communication assist in building up the country and have an indirect value which probably is fully as great as the loss that is experienced.

Mr. CANTLEY: I am thoroughly in accord with all that, but the reason I ask the question is that the popular opinion of the man on the street is that better and better passenger services should be provided and that it is a profitable service, while the fact is that it is anything but a profitable service. That is the point I want to bring out.

Sir HENRY THORNTON: I do not know that the popular opinion of the man on the street is that it is a profitable service, but I certainly know that the public expect better service all the time.

Mr. CANTLEY: There is not any doubt that the ordinary man on the street thinks you are making a profit.

Sir HENRY THORNTON: The only passenger services that really pay are the suburban services serving large metropolitan areas such as New York and London.

Mr. HANSON: The greatest ratio of losses is on the little country jerk-water routes.

Sir HENRY THORNTON: To go back a little. The governing factor in passenger service is the degree to which you fill your train. It does not cost any more to haul a train full of passengers than it does, empty, and every passenger you get into the train is just that much velvet, and therefore if you can fill your trains you can make money. The trouble is that we cannot fill our trains. The running of suburban services pays because the trains are filled, and not only filled, but people are usually standing in them.

Mr. HANSON: Ten million dollars is rather a colossal loss.

Sir HENRY THORNTON: Yes, it is pretty large.

Mr. GEARY: That is subject to a little modification. If you have light passenger traffic you would decrease your haul of coaches, for instance, or do you run the same number of coaches through?

Sir HENRY THORNTON: As far as out of pocket expenses are concerned, it does not cost more to run a passenger train with six cars than it does with five cars.

Mr. GEARY: I am glad to hear that. It has not been always argued that way.

Sir HENRY THORNTON: No, a great deal depends on what you are trying to prove. I am telling you the truth now.

Mr. HANSON: It all depends on the point of view.

Mr. GEARY: If you tell that before the railway board, we might be able to get along better.

Mr. HANSON: The net result of the discussion is that your passenger service loss of revenue is going back each year, getting greater. Two years ago it was about six million dollars; now it is about ten million.

Sir HENRY THORNTON: I cannot remember what it may have been then. I think you have to take that into consideration as a proportion of the gross revenue. That is, you might experience a progressive loss in passenger service, but which compared on a percentage basis with gross revenue, might show improvement.

Mr. GEARY: The importance of that is the fact that the greater the passenger business, the greater the net loss.

Sir HENRY THORNTON: Up to a certain point. You get to a certain point, then beyond, when you get a certain volume of traffic, then you improve your position.

Mr. GEARY: If you get to the point of saturation.

Sir HENRY THORNTON: Until you get to the point of saturation. There is no use kidding ourselves that passenger business is in itself a profitable business, but it is something that has to be carried, and must be carried on well, and indirectly, there is an advantage in having first-class passenger services.

Mr. HANSON: Some years ago it was suggested that there might be co-operation or co-ordination between you and the other great system, in services which would eliminate this loss. Has anything been accomplished with regard to that?

Sir HENRY THORNTON: Well, I have not been able to accomplish anything. We are perfectly willing to collaborate with the Canadian Pacific Railway at any time with respect to passenger services anywhere in Canada, and I made that offer several years ago but it was not accepted.

Mr. HANSON: You have not been able to get them to agree.

Sir HENRY THORNTON: That is the idea, that is it.

Mr. HANSON: Of course, the most glaring instance of that is between here and Montreal.

Sir HENRY THORNTON: That is quite true.

Mr. HANSON: That is the one that comes under our notice most.

Sir HENRY THORNTON: Yes. I would be quite willing to pool our services, to pool our receipts, to pool our losses, or to do anything anyone wants to do, that will reduce passenger service losses in cooperation with the Canadian Pacific Railway. That offer is made now, and it stands.

Mr. FAIRWEATHER: A summary of the comparative accounts of 1928 and 1929 is as follows:—

	1928	1929	+ Increase or — Decrease	Percentage + Increase or — Decrease
	\$	\$	\$	
Freight.....	209,439,963	193,653,911	-15,786,052	- 7.54
Passenger.....	34,187,024	32,012,886	- 2,174,138	- 6.36
Mail.....	3,099,212	2,995,337	- 103,875	- 3.35
Express.....	13,307,374	13,381,329	+ 73,955	+ 0.56
Telegr. and Teleph.....	5,428,912	6,122,152	+ 693,240	+ 12.76
Other traffic.....	11,169,436	11,713,358	+ 543,922	+ 4.86
Total	276,631,921	259,878,973	-16,752,948	- 6.05

OPERATING EXPENSES

The properties of the Canadian National Railways experienced considerable growth during the year 1929. The operated road mileage was increased from 19,364.13 to 19,571.36, and miles of all track from 26,773.40 to 27,004.22. Locomotive equipment increased from 3,032 units to 3,096 units, freight train cars from 119,984 units to 123,164 units, passenger train cars from 3,721 units to 3,765 units and work equipment from 7,886 units to 8,234 units.

The comparison of the properties in the two years is as follows:—

	1928	1929
Road miles.....	19,364.13	19,571.36
Miles of all tracks	26,773.40	27,004.22
Locomotives.....	3,032	3,096
Freight train cars.....	119,984	123,164
Passenger train cars	3,721	3,765
Work equipment.....	7,886	8,234

Mr. HANSON: With respect to the increase freight train units, do you feel you are fully equipped yet?

Sir HENRY THORNTON: No. One of the most difficult and serious problems we have is the disposal of several thousand wooden underframe box-cars, which were an inheritance from previous administrations, and we will not be in a satisfactory position until we have replaced those with modern steel equipment.

Mr. CANTLEY: The funeral pyre is the only place for those.

Sir HENRY THORNTON: That is right. The only trouble is it costs money. We have been gradually, during the last seven years, working these cars out of our equipment as quickly as we can, and replacing them with modern cars.

Mr. CANTLEY: Those cars will be debarred from the American roads in 1931.

Sir HENRY THORNTON: Yes. They will be debarred at that time.

Mr. CANTLEY: What increased number of cars do you suggest you will require to meet that condition of affairs next year? How many of those cars are left?

Mr. HUNGERFORD: About 50,000 wooden cars of all kinds.

Sir HENRY THORNTON: About 8,000 of the worst type. Now, we started trying to get rid of those and replace them some years ago, and have made pretty satisfactory progress.

Mr. HANSON: It is only a question of expense.

Sir HENRY THORNTON: Yes, it is a question of expense, but you will have to distribute all that expense in such a way as not to get it all at once.

Mr. GEARY: Is there any useful life in these cars?

Sir HENRY THORNTON: Not much more.

Mr. GEARY: If you had the money you would replace them?

Sir HENRY THORNTON: Oh, yes, I would, like a shot, but I am very much like the man who would like to paint his house this year and can only paint part of it, and must wait until next year to finish the job. It all depends on how much money you have got.

Mr. GEARY: If these things have a useful economic life, you want to wear them out.

Sir HENRY THORNTON: We are making certain use of them, of course, but it would be unwise to try to replace all in any one year.

Mr. GEARY: It would hardly be justified.

Sir HENRY THORNTON: I do not think it would be justified. We are using our best judgment to get rid of them as fast as we can.

Mr. CANTLEY: Do you care to tell us what your car-building program is for the present year?

Sir HENRY THORNTON: Our car-building program, what equipment—I can give you that in two minutes. These are additions—200 freight refrigerator cars, 10 snow ploughs, 1,000 50 ton box cars, 12 sleeping cars, 5 dining cars, 12 lounge cars, 25 tank cars, 5 depressed flat cars, flats for handling heavy casting, 2,250 box cars; 20 baggage cars; another item of 1,250 box cars. Well then there are some scattered refrigerator cars. Is that enough?

Mr. CANTLEY: Do you contemplate contracting for that equipment this year?

Sir HENRY THORNTON: Oh yes.

Mr. HANSON: And the estimated gross outlay is \$21,000,000 with increased locomotives. Do you ever anticipate coming to the end of your betterment program?

Sir HENRY THORNTON: Never!

Mr. HANSON: In that table that was read there were increases in express, telegraphs, miscellaneous; is that due to the increase in rates or increase in business?

Sir HENRY THORNTON: Increase in business. The most notable increase is the increase in telegraphs and telephones, and that is due to the improvement in our telephone facilities, in the introduction of the carrier system which has increased our capacity for business and attracted a good deal of new business.

Mr. HANSON: You are increasing the mail service there?

Sir HENRY THORNTON: There was an increase in mail revenue of \$67,000 for new lines on the Western region and for an additional volume of mail handling but this was off-set by credit in 1928 in the accounts for \$170,000 for back mail pay. In other words in 1928 we got \$170,000 back mail pay which throws the comparison out of proportion. It is really not a decrease.

Mr. HANSON: With reference to your telegraph service, you took over the Western Union in the lower provinces. Did you take over the whole service?

Sir HENRY THORNTON: Yes, except the cable service.

Mr. HANSON: But you didn't take over the trans-Atlantic cable nor did you take over the through service cable?

Sir HENRY THORNTON: Yes, we took all land services.

Mr. HANSON: Did you get that?

Sir HENRY THORNTON: Yes.

Mr. CANTLEY: What price did you pay?

Mr. ROBB: \$1,029,000.

Mr. CANTLEY: Was that under appraisalment or under an old agreement?

Sir HENRY THORNTON: Under appraisalment.

Mr. CANTLEY: What arrangement was made with respect to the employees?

Sir HENRY THORNTON: The same arrangement was made with respect to employees as was made with all other lines of railways. The employees come in just the same as the employees on the Canadian National.

Mr. CANTLEY: I was interested in the pensions arrangement because the western union had a very fine arrangement.

Sir HENRY THORNTON: Well, they come in for pension just the same as if their service was on the Canadian National.

Mr. CANTLEY: Is that as high a scale?

Mr. ROBB: Higher, sir.

Mr. CANTLEY: Oh, I am glad to hear it.

Mr. ROBB: Of course there are some of the old employees there with us yet that are to be superannuated by the Western Union. For instance from the Western Union there are a number of old employees and we did not think it was quite fair that these old employees entitled to superannuation under the Western Union should remain with the Canadian National and then be superannuated by the Canadian National, so we made an arrangement whereby they would take care of their superannuation. I think there were about 11 of them we were continuing on in our service until such time as we did not require them any longer or they decided to retire, and then they went on Western Union superannuation. For instance a man who has served the Western Union for 30 or 40 years, and he had only spent three or four years with the Canadian National, at the end of the time when it comes to retire, his pension counts for him the same as though he served the whole of his time with the Canadian National.

Mr. HANSON: On the basis of the higher scale?

Mr. ROBB: Yes.

Mr. HANSON: It is very interesting to hear it.

Sir HENRY THORNTON: That figure was \$1,100,000. I am sorry if I said \$1,020,000. The exact figure is \$1,123,395.

Mr. GEARY: Did you estimate the liability in reserve for superannuation?

Sir HENRY THORNTON: No. Mr. Robb was just explaining. We gave to the Western Union employees the same superannuation facility as though we had owned the telegraph line in perpetuity excepting with respect to some of their older men who were just about to be superannuated and we did not think we should carry that burden and the Western Union agreed with respect to those 11 men to take care of them.

Mr. GEARY: That was not my point. You set up a fund for superannuation?

Mr. ROBB: Perhaps I could explain that in addition to the pensions the rates are higher now. As soon as ever they come under us automatically the same rates as paid by the Canadian National Railway telegraphs through the west automatically went over the whole of the Maritime provinces and they are much higher rates than are paid by the Western Union.

Mr. GEARY: This telegraph line carried as liability some sort of reserve to provide for superannuation, I suppose?

Sir HENRY THORNTON: No. We didn't get that reserve when we bought the property.

Mr. GEARY: You bought the physical assets? Then you contribute out of your funds an equal amount in order to make that up?

Mr. ROBB: No, no.

Sir EUGENE Fiset: Only with regard to 11 employees.

Mr. GEARY: Whoever they are. Take your case, what have you against future superannuation payments? It is a fund; that is a liability, is it not?

Sir HENRY THORNTON: We have not built up a pension reserve fund as we have an insurance reserve fund. I think that is what you are getting at. That is largely because the state of our finances do not permit it at the moment. Therefore, we are meeting out of our expenses the annual pension requirements.

Mr. HANSON: Is that a contributory system?

Sir HENRY THORNTON: Not entirely. What we will do some day as soon as we can get around to it is to build up the same kind of a pension reserve that we have with respect to our insurance reserve. There are several things of that kind which ought to be done on the railway and the only reason it has not been done is just that you cannot do everything at once.

Mr. GEARY: Taken by itself that scheme is not actuarially sound?

Sir HENRY THORNTON: Oh, no.

Mr. GEARY: But there are contributions from some employees are there not? In your system you have a fund on hand composed of contributions from employees, have you not?

Sir HENRY THORNTON: You explain, Mr. Robb, the whole pensions system.

Mr. ROBB: We have no contributions for the pension from the employee.

Mr. GEARY: Well, that answers the whole question.

Mr. ROBB: There is a fund on the old Intercolonial and also on the old Grand Trunk in which employees contribute, and that is for sick benefits and insurance and so on, but only those two railways. Now in the Maritime provinces—that is what we have under consideration at the present time—one of the conditions on which the western Union would agree to the Maritime Province lines coming over to the Canadian National Railway—was that we should provide for the pensions of the employees.

Mr. GEARY: Did they have a fund set up? Did the Western Union have a fund?

Mr. ROBB: I don't know really whether they are paying out of a fund or out of operating. They have a scheme for the whole of their employees the same as the Canadian National.

Mr. HANSON: You have no pension fund established? You take it out of your operating expenses each year?

Mr. ROBB: Oh, yes.

Mr. HANSON: And it is non-contributory?

Mr. ROBB: Non-contributory.

Sir HENRY THORNTON: And that is pretty much a standard practice.

Mr. GEARY: If there is a fund against future pensions in this telegraph line you have to make that good in addition to the price you pay for the valuation of the property?

Sir HENRY THORNTON: Indirectly; in one form or another. In other words it comes to this, that the care of your old employees, in any industry, whether it is railroading or anything else, has come to be a charge on the property.

Mr. GEARY: Perfectly proper. I was only wondering about the financial arrangements, whether any sums are set up—

Sir HENRY THORNTON: No, I hope some day we can.

Mr. HANSON: As a matter of fact it is just a matter of policy with the management. There is no statute.

Sir HENRY THORNTON: No, of course. The two things you would like to accomplish are, you would like to have an insurance fund, a sufficient fund, at once, to meet all of your insurance requirements and put you on easy street there. And you would likewise like to have a fund which in itself will maintain the pension basis of all of your employees. That is the sound thing to do as you can do it.

Mr. GEARY: One more question on these figures. You have a total track mileage of some 26,000 miles, and operating mileage of 19,000, a difference of 7,000 miles.

Sir HENRY THORNTON: Well, some lines we are operating under lease. And that 27,000 miles includes third and fourth track—and yards and sidings.

Mr. GEARY: Well that is what I mean.

Mr. FAIRWEATHER: The 19,000 miles is station to station mileage and the other is the miles of all tracks, second track, third track, sidings.

Mr. GEARY: You throw them into the other?

Mr. FAIRWEATHER: Yes.

Railway operating expenses bear relation to both the size of the properties and to the traffic handled. The operating expenses for the year 1929 were \$214,816,892 as compared with \$218,248,343, a decrease of \$3,431,451, or 1.6 per cent.

Mr. HANSON: Has that decrease been brought about by laying off men.

Sir HENRY THORNTON: Well, the next sentences will explain.

Mr. FAIRWEATHER (Reading):

“Had the decline in traffic been uniform throughout the year and not concentrated in the fall months, operating expenses might have been somewhat less. Maintenance programs had however been established for the year based upon a normal expectancy of traffic and as the failure of the crop to move in a normal way developed with considerable suddenness, it rendered difficult any compensating reduction of expenses. Moreover, the railway had already been put to the expense of distributing several thousand empty cars in anticipation of a normal crop movement. The money so spent, could, of course, not be recovered. Also, having regard to national interests, it was considered unwise to embark upon a wholesale policy of retrenchment which would throw hundreds of wage earners out of employment with attendant economic disadvantages. Consequently, while the situation was immediately recognized, the company exercised a restraint with regard to measures which conceivably might have created a worse and more permanent condition of depression. The properties have been adequately maintained and are in a high state of efficiency.”

Mr. HANSON: Well, having regard to that whole paragraph, is it not a fact that you did retrench? Did not you cut out your extra work?

Sir HENRY THORNTON: We certainly did retrench so far as good judgment indicated that we should. And you will find in the next paragraph that we decreased maintenance-of-way expenses by \$1,142,342, and transportation expenses \$3,142,929. That decrease in transportation expenses was considerably due to the automatic falling off in traffic.

Mr. HANSON: The transportation. Of course. The men go according to the tons. That is right. That is axiomatic. But were not some of the datal men taken off, the extra men?

Sir HENRY THORNTON: Oh yes, what you call casual labour, seasonal labour. Oh yes. What we tried to do was to retain in service the older and more experienced employees, men who had established homes and had families, and to whom dismissal would have been a very serious thing, both to them and the community in which they live.

Mr. HANSON: Were men put on short time in the shops?

Sir HENRY THORNTON: Yes.

Mr. HANSON: All over the system?

Sir HENRY THORNTON: Yes. Well, you might explain it, Mr. Hungerford.

Mr. HUNGERFORD: No, we did not reduce the time or the staff in the shops last fall, but we have recently made arrangements to shorten the hours somewhat.

Mr. HANSON: You have a five-hour day some places?

Mr. HUNGERFORD: Yes.

Mr. GEARY: In what proportion is labour to expenses?

Mr. FAIRWEATHER: Employees compensation amounted to \$70,391,000 out of a total of \$104,820,000.

Sir HENRY THORNTON: About 70 per cent is labour. You asked what proportion of expenses were paid out for labour. That is right. Well, it is roughly about 70 per cent, 68 per cent.

Mr. HANSON: 50.58 per cent.

Sir HENRY THORNTON: No, that is cents. That is the distribution of the revenues. What Colonel Geary asked was what proportion of the transportation expenses are paid out in labour and it is about 68 per cent. In 1928 it was \$71,222,000 and the total expenses \$107,963,000.

Mr. GEARY: And what was it in 1929?

Mr. FAIRWEATHER: \$70,000,000 against \$104,000,000. I can give you the percentages.

Mr. GEARY: That means you have dropped in compensation about a million dollars?

Mr. FAIRWEATHER: \$830,000.

Mr. GEARY: And you have dropped under the whole transportation—

Mr. FAIRWEATHER: \$3,000,000.

Mr. FAIRWEATHER: The decrease in material was \$2,468,000.

Mr. GEARY: That is a rough division.

Mr. FAIRWEATHER: That is presented in the memo.

Mr. GEARY: The Interstate Commerce is about the same.

Mr. FAIRWEATHER: Yes.

Sir HENRY THORNTON: Shall we go on?

Mr. FAIRWEATHER (Reading):

The operating expenses of the Canadian National Railways are classified in accordance with the accounting rules of the Dominion Bureau of Statistics and are divided into 144 primary expense accounts, these being grouped under 7 main heads, with self-descriptive heads as follows:—

(1) Maintenance of way and structures.....	40 primary accounts
(2) Maintenance of equipment.....	27 primary accounts
(3) Traffic.....	10 primary accounts
(4) Transportation.....	49 primary accounts
(5) Miscellaneous.....	5 primary accounts
(6) General.....	12 primary accounts
(7) Transportation for Investment, Cr.....	1 primary accounts
Total.....	144 primary accounts

The comparison of expenses under these heads for the years 1928 and 1929 follows:—

Total Operating Expenses	1928	1929	— Decrease or + Increase
	\$	\$	\$
Maintenance of way.....	48,010,559 17	46,868,217 11	—1,142,342 06
Maintenance of equipment.....	47,918,236 40	48,460,840 78	+ 542,604 38
Traffic.....	7,047,167 70	7,345,710 07	+ 298,542 37
Transportation.....	107,963,695 15	104,820,765 87	—3,142,929 28
Miscellaneous.....	2,329,281 21	2,378,644 27	+ 49,363 06
General.....	6,785,668 17	6,904,941 28	+ 119,273 11
Transportation for Investment—Cr.....	—1,806,264 12	—1,962,226 97	— 155,962 85
Total.....	218,248,343 68	214,816,892 41	—3,431,451 27

Mr. HANSON: Would you explain that last item. I do not know what it means?

Mr. FAIRWEATHER: That arises out of the transportation by the railway of materials used on capital account, if we transport material for our operation, the company's own necessities, we don't charge anything for the freight but if we transport it for capital account we charge at a stated rate. I think that is true more or less, Mr. Cooper?

Mr. COOPER: Yes. Seven mills a ton mile.

Mr. HANSON: That is the standard?

Mr. COOPER: Yes.

Mr. GEARY: Will you assure us that while maintenance of way has dropped \$1,142,000 that does not indicate any slackening up in maintaining the way. You stated so I think pretty definitely.

Sir HENRY THORNTON: Well you see the total expenditure was practically \$47,000,000. You can subtract \$1,100,000 from that without great damage to the property.

Mr. GEARY: But you have not adopted any policy of slackening up in your maintenance of way.

Sir HENRY THORNTON: No, we have tried to exercise a certain amount of economy and we have postponed certain things which can be postponed without serious difficulty for another year and we have generally endeavoured to exercise that prudence which business judgment would indicate but without unduly borrowing from the future, because you pay a pretty high rate of interest when you borrow from the future in the maintenance of a railway.

Mr. HANSON: Somewhere you say the maintenance has been maintained up to a high level.

Sir HENRY THORNTON: It has. Each year we find ways and better means of doing things. For instance, just one little thing, we have extended the cooperative movement to our maintenance of way employees. That is to say we are giving to our maintenance of way employees the same opportunities to make suggestions relative to the improvement of doing work that we have in the shops. And that is developing quite a material degree of economy. We find that our men are making suggestions with respect to many of the tools that they use, many of the methods that are employed, that are valuable and productive of better results with less expenditure. And each year, not only in the Maintenance of Way Department, but in all departments, we find better and more economical ways of doing things, and the operation of the railway will become progressively more efficient.

Mr. CANTLEY: How do you encourage that? In a financial way?

Sir HENRY THORNTON: No. Different districts and different regions have committees consisting of the road masters and the district engineers who meet periodically with the appointed representatives of the men and the men will explain how a certain tool can be improved or will call our attention to perhaps a little different way of distributing oil, as to how we can save some oil, and hundreds of suggestions of that kind. No one may be of great value of itself but some thousands of them mean thousands of dollars at the end of the year.

Mr. CANTLEY: Well, if an employee makes a suggestion and you adopt it with the result that the railway is in a considerable amount of money, do you recompense him in any way whatever?

Sir HENRY THORNTON: No. I can only describe it in this way. In the shops, for instance, we were so satisfied with the result and were anxious to provide some recognition and that took the form of a week's holiday to all our men in the shops with full pay. That was the compensation to the class as a whole for their efforts; or, at least, it was our recognition of their effort. We cannot very well assess it in dollars and cents, and it is not always easy to determine what the value of such is. So we lumped it all up and we indicated our satisfaction by this week's holiday with pay.

Mr. HANSON: Maintenance of Way Equipment is about your largest item except transportation?

Sir HENRY THORNTON: Yes.

Mr. HANSON: My observation is that you are maintaining your ways on your main lines pretty well but I do not think you are on your branch lines. I made that observation last year and you denied it, or rather you said they were being maintained as well as the the receipts.

Sir HENRY THORNTON: That is the answer.

Mr. HANSON: Well, there is a point beyond which you cannot go.

Sir HENRY THORNTON: One of the things a railway officer is supposed to know, or at least one of the things he has got to do is to decide the standard of maintenance which the character of the traffic demands. Of course you maintain the main line to the very highest standard. On the other hand a relatively unimportant branch line does not deserve creosoted ties, or rock ballast, or automatic signals. It is a matter of judgment on the character of maintenance that should be employed—

Mr. HANSON: Or what you can get by with.

Sir HENRY THORNTON: In some cases. Well, I should not put it quite that way. If you mean what you can do without public uproar, that is one way of putting it, but no kind of public uproar would change my opinion with respect to what I believed to be the character of maintenance that ought to be employed, otherwise I would be driven crazy.

A MEMBER: You are impervious.

Sir HENRY THORNTON: I have had a fair amount of experience.

Mr. HANSON: I travelled in a railway train the other day in one of your cars that was built before I was born, which is a good many years now, and I asked the man where it was built, and he said in the old Harris Car Works in St. John—1878.

Sir HENRY THORNTON: Well, of of course it is always nice to preserve these old railway and political memories.

Mr. GEARY: I thought that car was running on the old Toronto railway.

Sir HENRY THORNTON: I am showing signs of reformation at any rate.

Mr. HANSON: Well, the sum and substance is you have to get rid of these old cars or you are going to have some accidents.

Sir HENRY THORNTON: I would be tickled to death if we had rock ballast all over the railway, and automatic signals and fine stations and grass plots and fine parlour cars. I would be tickled to death if I could do all this. It is what we are working to. But unfortunately we cannot do it all at once.

Mr. CANTLEY: Well, the point of my friend is that you are improving enormously the traffic between Montreal and Toronto on these through trains and on the main line, but take for instance, from Halifax to Sydney, we have a lot of equipment there that is not in keeping at all with the importance of that traffic, because there is a growing and important traffic. I travelled to Truro recently when as a matter of fact there was not seating accommodation for—well, 20 per cent of the traffic.

Sir HENRY THORNTON: Well, that is a fairly tall order. If it were anybody else I would be inclined to question it.

Mr. CANTLEY: Thank you for the compliment but the fact remains.

Sir HENRY THORNTON: I have no doubt you could find some things about the railway which are not done as we would like to have them done, but all I can say is we are doing the best we can and I look forward to the day when all of these things will disappear and you are riding on a rock ballasted railway between Halifax and Sydney.

Mr. CANTLEY: Your accommodation from Halifax to Montreal on the Ocean Limited and the Maritime is first class; and the Acadian, when it goes. But when you leave the main line and travel from Halifax to Sydney, which is a very important one, the accommodation there is not what we ought to have.

Sir HENRY THORNTON: Just make a note of that. Mr. Fairweather and we will see what we can do. Maybe something is overlooked.

Mr. HANSON: I think that is true of all the branch lines. Your through line traffic is splendid, and you ought to have the recognition that deserves. But the branch line equipment is poor.

Sir HENRY THORNTON: Well, let us assume it is what you say it is. We do not do that for fun. There must be some reason for it and the reason is we are just getting around to those things as fast as we can.

Mr. HANSON: I recognize that. I want to be fair.

Sir HENRY THORNTON: Personally I would be delighted if we could give that character of branch line service which would satisfy everyone.

Mr. GEARY: Probably the people would put up with almost anything to get from Sydney to Halifax.

Mr. CANTLEY: That is an Ontario point of view.

Sir HENRY THORNTON: Well, we have your point, Colonel. I have a note of it.

A MEMBER: I do hope you are keeping up the standard that you found on the Gaspé Railway.

Sir HENRY THORNTON: That is another story.

Mr. HANSON: All these branch lines are another story.

Sir HENRY THORNTON: I would not despair of the Gaspé Railway, really—sometime—

A MEMBER: And the Kent Northern?

Sir HENRY THORNTON: That is a fine property. Well, shall we trot along. I do not think there is anything there of interest until you get down to Maintenance of Way and Structural expenses at the bottom of page 4.

The expenses may be further divided for the purpose of comparison between employees' compensation and other expenses. This comparison follows:—

Employees Compensation	1928	1929	Increase	Decrease
	\$	\$	\$	\$
Maintenance of Way.....	26,079,435	26,251,038	171,603	
Maintenance of Equipment.....	25,088,758	25,790,316	701,558	
Traffic.....	3,398,563	3,499,529	100,966	
Transportation.....	71,222,686	70,391,850		830,836
Miscellaneous.....	1,127,175	1,125,153		2,022
General.....	4,311,344	4,395,227	83,883	
Total.....	131,227,961	131,453,113	225,152	

Materials and Miscellaneous	1928	1929	Increase	Decrease
	\$	\$	\$	\$
Maintenance of Way.....	21,931,124	20,617,179		1,313,945
Maintenance of Equipment.....	22,829,479	22,670,525		158,954
Traffic.....	3,648,605	3,846,181	197,576	
Transportation.....	34,934,745	32,466,689		2,468,056
Miscellaneous.....	1,202,106	1,253,491	51,385	
General.....	2,474,324	2,509,714	35,390	
Total.....	87,020,383	83,363,779		3,656,604

The increased expenses on wage account, amounting to \$225,152, was brought about by increases in rates of pay and changes in working agreements and conditions, amounting to \$2,040,284, and a decrease of \$1,815,132, due to less employment. The harmonious relations, which for a number of years have existed between the Company and the employees, continued throughout 1929. A number of wage adjustments were effected with certain classes of employees. In all cases the settlements were in line with those of the Canadian Pacific Railway, the wage question being discussed in a national sense and in some cases by joint negotiations with both railways. The decrease in expense on Material and Miscellaneous account, amounting to \$3,656,604, is made up as follows:

Decreases due to Price Changes	\$ 530,080
Decreases due to less material used.....	3,126,524
	<u>\$3,656,604</u>

An analysis by classes of materials follows:

	Changes in Price		Changes in Quantity	
	Increase	Decrease	Increase	Decrease
	\$	\$	\$	\$
Ties.....		128,586		261,597
Rails.....		9,318		1,074,700
Coal.....		724,630		1,623,951
Miscellaneous Material.....	332,454			166,276
		530,080		3,126,524

The first main group of operating expense is Maintenance of Way and Structures. The expenses under this heading for the year 1929, as compared with the previous year were as follows:

1928..	\$48,010,559
1929..	46,868,217

Decrease.. \$ 1,142,342

Although heavy maintenance expense had been incurred before the commencement of the general decline in revenue, curtailment of expenditures during the latter months of the year resulted in a decrease on this account of \$1,142,342, or 2.4 per cent. A critical study of the effect of variations in wages, changes in the price of materials, variations in traffic, increase in size of the property, and weather conditions shows that the expenses are closely comparable with those of 1928. 625.2 miles of new 100-lb. rail and 180.12 miles of new 85-lb. rail were laid during the year and 469.96 miles of line were relaid with 80-lb. and 85-lb. released rail. The beneficial effects of using creosoted ties is now commencing to be felt in reduced tie renewals per year.

Mr. HANSON: You speak here of the effect of variation in wages. What variations in wages have there been in the year.

Mr. FAIRWEATHER: That you will see here on the next page, right at the top of the next page.

Sir HENRY THORNTON: Page 5.

Mr. GEARY: We are asking the questions before reaching the explanatory paragraph.

Sir HENRY THORNTON: If you don't mind my saying that the next paragraph answers your question. Next year I think Colonel it would be a good thing to distribute these perhaps three or four days in advance so members would have an opportunity of looking it over, and I hope incidentally I shall have the pleasure of greeting you all next year just the same as to-day.

Mr. CANTLEY: We will all be here.

Mr. HANSON: We are all coming here. That is, we are speaking for ourselves.

Mr. FAIRWEATHER: (Reading)

The decrease of \$1,142,342 is made up of:

	Increase or Decrease in Average Rate of Com- pensation or Price		Decrease in Quantity	Net	
	Increase	Decrease		Increase	Decrease
	\$	\$	\$	\$	\$
Labour.....	571,722		400,119	171,603	
Material.....		125,178	1,188,767		1,313,945
Total.....	446,544		1,588,886		1,142,342

An analysis by class of materials follows:

	Price Changes		Quantity		Net	
	Decrease	Increase	Decrease	Increase	Decrease	Increase
	\$	\$	\$	\$	\$	\$
Ties.....	128,556		261,597		390,183	
Rails.....	9,348		1,074,700		1,084,018	
Other material.....		12,726		147,530		160,256
	125,178		1,188,767		1,313,945	

The principal increases and decreases are as follows:—

Principal Increases: Superintendence.....	\$138,684
Roadway Maintenance.....	196,701
Station and Office Buildings	185,526
Telegraph and Phone Lines.....	365,517
Removing Snow, Ice and Sand	155,138
Injuries to Persons.....	103,690
Principal Decreases: Bridges, Trestles and Culverts.....	419,662
Ties.....	390,183
Rails.....	1,084,018
Other Track Material.....	321,166
Tracklaying and Surfacing.....	437,963

Mr. HANSON: That is just the point of my question.

Sir HENRY THORNTON: Wages increased.

Mr. HANSON: Was the rate of wages increased in all the ranks?

Sir HENRY THORNTON: Section men.

Mr. HANSON: Good, the low man got a little increase. He is always the first to suffer in any decrease. What are you paying now?

Mr. FAIRWEATHER: I will give you the detail.

Sir HENRY THORNTON: It was to the section men generally.

Mr. HANSON: But what are the rates now paid to the section men?

Mr. HUNGERFORD: Forty-four cents an hour.

Mr. HANSON: And what was it previously?

Mr. COOPER: Forty-two cents.

Mr. HANSON: And the foreman?

Mr. COOPER: I have only got it for the regular forces as a whole.

Mr. HUNGERFORD: The foremen have varying rates, according to the importance of the division, but in general it runs up to about 55 to 60 cents an hour.

Mr. HANSON: It is not based on length of service, it is based on the importance of the division?

Mr. HUNGERFORD: The importance of the division.

Mr. HANSON: I want to refer now to the question of ties. I see you have had a very substantial decrease in the cost of your ties. My observation, Sir Henry, is that you are paying very low prices for your ties.

Sir HENRY THORNTON: Well, that is a matter of opinion, but I hope we are.

Mr. CANTLEY: The supplying of ties is the refuge of the destitute.

Sir HENRY THORNTON: That statement will apply to the whole of the railroad.

Mr. HANSON: Oh, no, I would not say that. It might with regard to coal.

Sir HENRY THORNTON: Yes, you are quite right about coal.

Mr. HANSON: On the question of ties, I understand the railway fixes the price.

Sir HENRY THORNTON: There has been a reduction both in price and the number of ties used.

Mr. HANSON: The reduction in the number has resulted from the new process of creosoting the tie.

Sir HENRY THORNTON: Partly that, and partly closer examination. No tie should be taken out of the track until it has got to go. *

Mr. HANSON: I agree with you there, but is it not a fact that the railways are now fixing the price that they pay the jobbers for ties?

Sir HENRY THORNTON: I think Mr. Vaughan, Vice President in charge of purchases, can tell you all about that.

Mr. VAUGHAN: That is quite right. We advertise for tenders, and the prices we receive are very frequently ridiculous, so we sit down and fix the price for ties and pay everybody in the vicinity the same price.

Mr. HANSON: And what do you base your figure on?

Mr. VAUGHAN: What we consider is the cost of production, and the tie men tell us that they are quite satisfied with the price for ties.

Mr. HANSON: Do you ever get down to the men who make them?

Mr. VAUGHAN: Yes, we talk to them all.

Mr. HANSON: Do you not deal with the middle men? I have a friend who supplies a great many ties in my community.

Mr. VAUGHAN: We buy all the ties, as a rule, they will give to us, but a good many settlers will not sell to us directly because they say we do not pay them promptly enough.

Mr. HANSON: It usually takes about a year to pay for the ties.

Mr. VAUGHAN: It takes a fairly long time.

Mr. HANSON: That is, the inspector may be a long time in coming around, and they do not get paid for them until they are loaded and delivered.

Mr. VAUGHAN: As a rule, they do not have to wait very long. Referring to the price, all I can say is this, that we usually have people offer to supply us about ten times more ties than we require at the price we offer.

Mr. HANSON: That is what Colonel Cantley is referring to as the "refuge of the destitute."

Sir HENRY THORNTON: Of course, we want to help the settler, and people of that sort, as much as we can. On the other hand, we must have some regard to the expenses of the company. Incidentally, last year we bought 11,600,000 ties, that is, manufactured ties, and about 2,400,000 from settlers and farmers.

Mr. HANSON: Hand made?

Sir HENRY THORNTON: Yes.

Mr. CANTLEY: Your tie business is being well handled by your friend over here, but the producer is being squeezed to the limit. I can compliment you on the energy of your officers. They do that with a great deal of honesty.

Mr. HANSON: There is a feeling in the country that the price paid to the primary producer is very low. I should like you to carry that thought away with you.

Sir HENRY THORNTON: We do not want to squeeze any person, if we can help it, but a little money on each tie means quite a lot at the end of the year. It makes my problem of explaining the expenses all the more difficult. The thing is a sort of a circle.

Mr. HANSON: Yes, I suppose it is. I suppose it is too early to ask the question as to what the increased life of the tie is.

Sir HENRY THORNTON: We can tell you that in a general way. Of course, individual ties or groups of ties, may vary, but broadly speaking a good tie out of doors will last, say, ten years, and if you creosote it you will substantially double the life, providing it does not wear out mechanically. On the other hand, where you have very heavy rail and heavy traffic, and especially in our climate where there is a good deal of heaving of the track because of frost and cold weather there has to be a certain amount of adzing done that is not required in the southern sections of the continent; in some instances the tie will wear out mechanically before it will wear out physically, but, roughly speaking,

one would say that the application of preservative methods pretty nearly doubles the life of the tie.

Mr. HANSON: Does the company own these plants?

Sir HENRY THORNTON: No.

Mr. HANSON: Why not?

Sir HENRY THORNTON: We think it is cheaper and better to buy from the creosoting companies. I find that the more the railway gets out of the railway business, the more trouble it gets into, and we find it better to buy as many of our cars and locomotives, and things of that sort, from outside manufacturers. It helps to encourage trade, and the creosoting companies can sometimes buy their raw materials cheaper than we can, and do the job cheaper and better; and then we also do not get into labour complications.

Mr. HANSON: As a matter of policy, you decide not to?

Sir HENRY THORNTON: Yes.

Mr. HANSON: I am not going to question that.

Sir HENRY THORNTON: Some railway companies do their own creosoting, but I think generally in the railway world, certainly on the North American continent, it is coming to be recognized that the more a railway sticks to its own field—that of transportation—and the less it invades other fields, the better off everyone is.

Mr. CANTLEY: I agree with that.

Mr. GEARY: Does that apply to hotels?

Sir HENRY THORNTON: I would be delighted if some hotel company would take over our hotels and run them as well as we do and as much in our interests. We are not building hotels because we like to go into the hotel business, but we have just go to do it.

Mr. HANSON: I am glad to hear you say that because they are looking for one down in our country. With regard to the creosoting proposition, I suppose you have to pay the standard union wage?

Sir HENRY THORNTON: We certainly would; no question about that.

Mr. CANTLEY: Does the railway not operate the creosoting plants at New-castle and Truro?

Sir HENRY THORNTON: That is the Canada Creosoting Company.

Mr. FAIRWEATHER:

MAINTENANCE OF EQUIPMENT

The comparative expenditures on Maintenance of Equipment, 1928 and 1929, are as follows:—

1928	\$ 47,918,236
1929	48,460,841
Increase.....	\$ 542,605

The increase in expense may be analysed as between labour and materials as follows:—

Analysis of Increased Expense

	Analysis of Increased Expense			
	Increase in Compensa- tion or Price	Decrease in Quantity	Net Increase	Net Decrease
	\$	\$	\$	\$
Labour.....	943,593	242,035	701,558	
Material.....	108,299	267,253		158,954
	1,051,892	509,288	542,604	

Mr. GEARY: Would that increase apply to all roads?

Sir HENRY THORNTON: Yes, it is pretty general.

Mr. GEARY: I mean, each road pays the same, generally?

Sir HENRY THORNTON: Yes.

Mr. FAIRWEATHER: The situation in respect to condition of equipment at the end of the year as compared with the end of the previous year is:—

	Serviceable in 1928	Serviceable in 1929
Freight cars	94.2	93.0
Locomotives	80.5	80.1

These figures compare favourably with those of Class I roads in the United States, and indicate the company's equipment is being adequately maintained.

Mr. GEARY: How many of those big locomotives have you?

Sir HENRY THORNTON: You mean the 6000 type?

Mr. HUNGERFORD: About seventy-five.

Mr. GEARY: Are they operating pretty generally over the system?

Mr. FAIRWEATHER: Seventy-two.

Mr. GEARY: Where do you operate those; on short lines or on transcontinental?

Sir HENRY THORNTON: They are in pretty general use, east of the head of the lakes, mostly between Halifax and Chicago.

Mr. GEARY: They are not overpowered? They are not too big an engine for your use?

Sir HENRY THORNTON: Not at all. In fact, you can easily say that no locomotive was really overpowered. It depends on the length of your passing sidings, and all that sort of thing. The maximum economy in railway practice comes when you have the maximum number of cars loaded behind the engine. In other words, it is what is called the average trainload that determines largely the economies of transportation. The more tons you can handle and haul with one engine, the more money you make.

Mr. GEARY: You have to provide locomotion for that peak, have you?

Sir HENRY THORNTON: Which peak?

Mr. GEARY: The peak of a full loaded train, what you desire.

Sir HENRY THORNTON: We are constantly increasing the capacity of our locomotives, that is, the general capacity—the general average capacity increases due to the introduction of heavier power. So the economy increases likewise, and every year we are increasing the average capacity of our power.

Mr. CANTLEY: On long-distance through traffic.

Sir HENRY THORNTON: Yes. That is true of every railroad, I suppose.

Mr. HANSON: It has been suggested to me, whether rightly or wrongly, in reference, we will say, to those heavy locomotives, that is, the 6000 and 6100 class, that you charge to the Atlantic region, in accounting, a very substantial daily rental, and that they are not in the common pool of operating expense, and, therefore, that that results detrimentally to the earnings of the Atlantic region.

Sir HENRY THORNTON: I am very glad that you asked that question. Have you the details of that, Mr. Cooper?

Mr. COOPER: The value of the equipment owned by the system is pooled. We figure 6 per cent interest on the investment, and we distribute that charge to the operations of the line according to the mileage made by the locomotive

power, so that each section of the railway gets its proportion of power to the carrying charges and investment, according to the amount of use made.

Sir HENRY THORNTON: There is no difference in the treatment of that question with regard to the Atlantic region compared with that of any other region.

Mr. HANSON: But a cheaper locomotive would be less of a charge on the division, would it not?

Sir HENRY THORNTON: On the other hand, it would probably increase the operating expenses disproportionately.

Mr. HANSON: Take the 5500 class that you operate between here and Montreal.

Sir HENRY THORNTON: We think we can make for better economy in operating as we do now. In fact, I am quite sure of it.

Mr. CANTLEY: Your trainload is only about one-half what it is, for instance, on the Ocean Limited. I mean, from Ottawa to Montreal.

Sir HENRY THORNTON: The Ocean Limited is a very big train.

Mr. CANTLEY: That is exactly what I say.

Sir HENRY THORNTON: It is one of the heaviest trains we have; it is rather too heavy.

Mr. HANSON: Then the idea as presented to me is not quite correct. It is distributed over the entire system.

Sir HENRY THORNTON: I would go a step further and say that it is wholly inaccurate.

Mr. FAIRWEATHER: The principal increases and decreases by primary accounts under this heading are:—

Principal Increases:	Shop Machinery	\$ 331,541
	Steam Locomotive Repairs.....	703,921
	Passenger Train Cars Repairs.....	219,030
	Passenger Train Cars Retirements.....	168,551
Principal Decreases:	Steam Locomotive Retirements.....	131,339
	Freight Train Cars Repairs.....	724,298
	Freight Train Cars Retirements.....	212,889
	Work Equipment Retirements.....	128,941

Traffic Expenses.—The comparative expenditures in 1928 and 1929 for traffic expenses are as follows:—

1928.....	\$ 7,047,168
1929.....	7,345,710
Increase.....	\$ 298,542

An analysis of this increase as between labour, material and miscellaneous is as follows:—

	Increase
Labour.....	\$ 100,966
Material.....	197,576
	\$ 298,542

The principal increase by primary accounts are:—

Outside Agencies.....	\$ 90,485
Radio.....	102,440

The increased traffic of outside agencies is due to the continued strengthening of traffic solicitation. The increased radio expense is due to more and better broadcasting. There were 2,922 broadcasts in 1929 against 2,623 in 1928, and the standard of broadcasting was appreciably improved. The average

cost per broadcast was \$77.43, as compared with \$47.45 in 1928. The extension of chain broadcasting has been made possible by improvements on Canadian National Telegraph Lines. The Canadian National now has a coast-to-coast broadcast chain with owned stations at Moncton, Ottawa, and Vancouver and rental arrangements at Quebec, Montreal, Toronto, London, Winnipeg, Regina, Saskatoon, Edmonton, Red Deer and Calgary.

Mr. HANSON: Technically, what are traffic expenses?

Sir HENRY THORNTON: The expenses involved in the solicitation of traffic, and generally those expenses related to what you would understand the Traffic Department. The department that has to do soliciting, fixing rates, publication of tariffs, and things of that character.

Mr. HANSON: It is not overhead, but it is operation. It looks very large to me.

Sir HENRY THORNTON: It is both overhead and not.

Mr. HANSON: It is a big cost, is it not?

Sir HENRY THORNTON: Well, relatively speaking, it is the percentage of traffic expense to gross earnings which is the only figure we can use. It is not at all out of line with that on the Canadian Pacific Railway.

Mr. HANSON: It is a growing item.

Sir HENRY THORNTON: It is a growing item, it will always be a growing item.

Mr. GEARY: How much of that is advertising?

Sir HENRY THORNTON: Advertising is separate. Just give the amount.

Mr. GEARY: If I remember rightly, it is in traffic.

Mr. CHAPLIN: Could you furnish a list of the items that make this large amount?

Sir HENRY THORNTON: You will find it all in detail on page 20 of the annual report.

Mr. CHAPLIN: If they are on page 20, then we will pass it up.

Sir HENRY THORNTON: Somebody asked a question about advertising.

Mr. GEARY: I have got it; it is in account number 353.

Mr. HANSON: There is an item, \$1,216,493.94 on page 20.

Sir HENRY THORNTON: The proportion of traffic expenses to gross earnings on the Canadian National railways is materially less than it is on the Canadian Pacific, and the percentage is about the same for most railways on the North American continent.

Mr. HANSON: I see one item, \$1,216,000 for advertising; that seems growing.

Sir HENRY THORNTON: That is so, and it will grow each year.

Mr. HANSON: I suppose the policy in that is that you like to keep the newspapers sweet.

Sir HENRY THORNTON: No, we have other ways of keeping the newspapers sweet. That is, by telling them the truth and treating them as they should be treated. Incidentally, I do not believe there is any press in any country that I have had any experience with that is as thoroughly above suspicion as the press of Canada, taking them right through from the Atlantic to the Pacific.

Mr. HANSON: That has not been my experience.

Sir HENRY THORNTON: You must have been dealing with a curious lot.

Mr. HANSON: Oh, I was; the worst in the world.

Sir HENRY THORNTON: If I might just say a word in connection with this whole traffic situation: we maintain offices pretty much all over the North American continent, wherever we think it is advantageous to open offices in the acquisition of traffic. We try not to open offices unless the expense is justified by the traffic we are going to get. Some times we miss it, but in the main, considering the general situation, I do not think we have opened too many offices. Now, as far as advertising is concerned, I do not think we spend really enough money on advertising, because we are not only advertising the railway, but we are advertising Canada, and we look at our outside agencies and our advertising as not only something that is promoting the welfare of the railway, but is directly promoting the welfare of the country.

Mr. HANSON: I suppose the best answer is, the other fellow is doing it too.

Sir HENRY THORNTON: And to a greater extent. As I said a moment ago, the Canadian Pacific railway is spending materially a larger amount of money relatively on traffic, than we do.

Mr. CANTLEY: Do you refer to domestic advertising of Canada, or abroad, in Europe?

Sir HENRY THORNTON: I refer to both.

Mr. CANTLEY: Which is the larger amount spent?

Sir HENRY THORNTON: Oh, we would spend more in Canada. I remember that figure now. For instance, we have opened and improved our office position in various cities on the North American continent, at considerable expense, which I think is a good thing to do, because a second-class office indicates a second-class railroad, and there is no good in having an office in a city unless it is a good one. If it is not a good one, do not have any.

Mr. HANSON: That is sound to me.

Mr. GEARY: A certain amount of window dressing is necessary.

Sir HENRY THORNTON: You have got to do it. Take New York; more people go up and down Fifth avenue than probably any street in the world. You would be surprised how many people go and ask questions about Canada, not as a matter of travel, but ask questions about the country. The same thing is true of Chicago, Detroit, Buffalo and all those cities.

Mr. HANSON: Of course, in a time of declining revenue—

Sir HENRY THORNTON: That is just the time when you should spend money. That is the time to go after them. In other words, when the fish don't bite put up your best bait.

Mr. CANTLEY: Yes, I guess you scored that time, Sir Henry.

The CHAIRMAN: Will somebody move that we have the evidence printed and that we get permission to sit in the afternoon?

Moved by Mr. Hanson, seconded by Mr. McLean, (Melfort), that 500 copies in English and 250 copies in French of the evidence be printed and that permission be obtained for the committee to sit while the House is in session.

Motion agreed to.

Sir HENRY THORNTON: May I say a word before the adjournment. For reasons beyond the control of anybody, the estimates have been delayed and we have some important contracts to be let, and important things to be done. I would ask that the committee approve the passing of half of the railway estimates in order that we can get on with the things that we have to do. I think that has been the custom.

Mr. HANSON: I think that would be a matter that Mr. Crerar should take up with Mr. Bennett. It is a matter of major importance.

The CHAIRMAN: There were two bills submitted to this committee by the unanimous consent of the House. I thought that it would be advisable before proceeding with the examination of the report in toto, that we should deal with those two bills which are urgent, and so far as the railways are concerned, also the supplementary estimates, before going into the details of that report.

The committee adjourned until 11 a.m., Wednesday, May 14.

SESSION 1930

HOUSE OF COMMONS

SELECT STANDING COMMITTEE

ON

RAILWAYS AND SHIPPING

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 2—WEDNESDAY, MAY 14, 1930

WITNESSES:

Sir Henry Worth Thornton, K.B.E., President and Chairman of the Board of Directors; S. J. Hungerford, Vice-President; R. C. Vaughan, Vice-President; W. D. Robb, Vice-President; D. C. Grant, Vice-President; R. L. Burnap, Vice-President; S. W. Fairweather, Director, Bureau of Economics; T. H. Cooper, General Auditor.

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1930

MINUTES OF PROCEEDINGS

ROOM 231, HOUSE OF COMMONS,
WEDNESDAY, May 14, 1930.

The Select Standing Committee on Railways and Shipping owned, operated and controlled by the Government met at 11 a.m. Sir Eugène Fiset, the Chairman, presided.

Members present: Messrs. Bell (*St. Antoine*), Cantley, Crerar, Fansher (*Lambton East*), Fiset, (Sir Eugène), Geary, Gray, Hanson, Jenkins, McLean (*Melfort*), Milne, Stevens.

In attendance: Sir Henry Thornton and other officials of the Canadian National Railways Company. Mr. Smart, Deputy Minister of Railways and Canals. Mr. Anderson, Department of Railways and Canals.

The Committee resumed consideration at page 7 of the statement "Canadian National Railways—Analysis of 1929 Operations as compared with 1928." Consideration of this statement was completed.

"Estimates, 1930-31—Railways, Canadian National Steamships and Maritime Freight Rates Act—Items Nos. 323, 324, 325, 326 and 327." Item No. 323 was considered. In this connection, a statement "Canadian National Railways Estimated Financial Requirements, 1930," was distributed to the members of the committee present.

The Committee adjourned at 1 p.m. until 4 p.m.

The Committee reassembled at 4 p.m.

Consideration was resumed of Item No. 323 of the Estimates, 1930-31. All of the items viz.: Nos. 323 to 327, both inclusive, were agreed to.

Ordered, To report to the House recommending that these items be adopted.

"Further Supplementary Estimates, 1929-30—Railways and Maritime Freight Rates Act—Items 321 and 322." These items were considered and agreed to.

Ordered, To report to the House recommending that these items be adopted.

Bill No. 130, An Act respecting the Canadian National Railways, and to provide for the refunding of certain maturing financial obligations, was considered, and agreed to without amendment.

Ordered, To report the Bill without amendment.

Bill No. 131, An Act respecting the Canadian National Railways, and to provide for certain financing in connection with certain lines of railway located principally in the State of Vermont, was considered, and agreed to without amendment.

Ordered. To report the Bill without amendment.

"Annual Report of the Canadian National Railway System." Consideration was commenced at page 17. All the items on page 17 were dealt with.

The Committee adjourned at 6 p.m. until to-morrow, 15th May, at 11 a.m.

JOHN T. DUN,
Clerk of the Committee.

MINUTES OF EVIDENCE

Room 231,

HOUSE OF COMMONS,

WEDNESDAY, May 14, 1930.

The Select Standing Committee on Railways and Shipping met at 11 o'clock a.m., the Chairman, Sir Eugène Fiset, in the chair.

The CHAIRMAN: Page 7, Transportation expenses.

Sir HENRY THORNTON: Mr. Chairman, just before you take up that item, I would like to make one very simple remark with respect to traffic expenses which grew out of a question which Mr. Hanson asked as to the amount spent on transportation expenses. I made the statement at the time that that was rather below the general average on the North American continent. As a matter of fact, last year the Canadian Pacific spent \$10,000,000 on traffic expenses. I merely mention that in order that you will understand the relationship between our traffic expenses and the amount generally spent on the average railroad.

Mr. GEARY: How do the gross traffics compare?

Sir HENRY THORNTON: Our gross earnings were practically \$260,000,-000 last year.

Mr. GEARY: And the Canadian Pacific.

Sir HENRY THORNTON: \$210,000,000.

Mr. GEARY: Is that land and sea.

Sir HENRY THORNTON: Just the railways. They are not on a comparable basis because we are not including steamship service in ours, but you can see it is more or less the same. What happened with respect to all the primary accounts long experience indicates that on the statement a certain percentage of the gross revenue is absorbed by maintenance of way, by equipment and by transportation, and if you see any material departure from that percentage it excites curiosity.

Will you proceed, Mr. Fairweather?

Mr. FAIRWEATHER:

TRANSPORTATION EXPENSES

The comparative expenses of conducting transportation in 1928 and 1929 are as follows:

1928.....	\$107,963,695
1929.....	104,820,766
Decrease.....	<u>\$ 3,142,929</u>

These figures represent the transportation expense applicable to the movement of all traffic including the cost of moving materials for construction work on capital account.

For the first eight months of the year Transportation Expense amounted to only 40.26 per cent of the operating expense, the lowest ratio for any corresponding period since consolidation. The subsequent decrease in grain and

other traffic made it impossible to maintain this ratio throughout the year, but the aggregate transportation expenses show a reduction of 2.9 per cent. The analysis of this decrease as between labour and material is as follows:

	Price Changes		Decrease in Quantity	Net Decrease
	Increase	Decrease		
	\$	\$	\$	\$
Labour.....	427,894	.....	1,258,730	830,836
Material.....	.....	536,390	1,775,703	2,312,093
.....	.....	108,496	3,034,433	3,142,929

The improvement in equipment continues to find expression in increased economy in the use of materials. Coal consumption per thousand gross ton miles now stands at 125 lbs. equal to the performance of Class I railways in the United States. The substantial nature of the improvement may be seen by comparing the coal consumption this year with the figure in 1923 which was 146 lbs. At present day prices of coal this represents an operating economy of \$3,000,000 per year.

Mr. HANSON: In respect to the transportation expenses, labour, I notice that there was an increase of \$427,000 in the price for labour but a decrease in the quantity of 1,258,730. That represents unemployment to that extent, does it, Sir Henry?

Sir HENRY THORNTON: The increase in price would of course, be an increase in wages. The decrease in quantity would mean that the men were employed fewer hours, that is to say, the conductors, engine men, firemen, brakemen and others, would be making less runs and earning less money than they did under other conditions.

Mr. HANSON: So that labour got on the whole \$730,000 less than in the preceding year?

Sir HENRY THORNTON: Yes.

Mr. FAIRWEATHER:

The principle items of increase and decrease in primary accounts are as follows:

Principal Increases:	Superintendence.....	\$165,806
	Yardmasters and Yard Clerks.....	119,279
	Telegraph and Telephone Operation.....	350,591
	Express Service.....	296,717
	Injuries to Persons.....	149,434
Principal Decreases:	Station Employees.....	105,347
	Fuel for Locomotives.....	2,348,581
	Train Enginemen.....	803,941
	Trainmen.....	776,932
	Clearing Wrecks.....	136,329

Hon. Mr. STEVENS: With the decrease in traffic why should there be an increase in telegraph and telephone operation?

Sir HENRY THORNTON: We took over the Western Union telegraph lines in the Maritimes, and there was some increase in wages. There was an increase in business, but the principal cause for the increase was greater wire mileage.

Mr. ROBB: The increase of \$350,000 was due to taking over the maritime lines, and an increase in business. There was an increase in business of \$693,000, and naturally we had to have an increase in our expenditures.

Sir HENRY THORNTON: And also an increase in taking over the Western Union lines in the maritimes.

Mr. ROBB: Yes.

Mr. HANSON: I see an increase of \$165,000 in superintendence. Does that mean an ordinary increase in salaries?

Sir HENRY THORNTON: Yes.

Mr. HANSON: You have a scale, I suppose.

Sir HENRY THORNTON: Well, there is no regular program. From time to time superintendents and others in the service of the company receive their reward which service in years entitles them to, and this is what that is.

Mr. HANSON: Have you not got that standardized in schedules?

Sir HENRY THORNTON: Pretty well standardized.

Mr. HANSON: With regard to the decrease, I notice a very noticeable decrease in fuel for locomotives. That, I presume, is largely due to decreased consumption.

Sir HENRY THORNTON: Partly decreased consumption and partly a matter of price. Mr. Vaughan, perhaps you could explain that more in detail.

Mr. VAUGHAN: We have been getting a better quality of coal right along, insisting upon a closer inspection, and there have been quite substantial decreases in price, particularly in United States mines.

Sir HENRY THORNTON: You would say that the decrease is partly due to lower prices and partly due to increased efficiency.

Mr. ROBB: Yes. And then, too, of course, our locomotives are all equipped with the most modern appliances for fuel saving.

Mr. HANSON: Approximately, Mr. Vaughan, what is due to lower prices?

Mr. COOPER: \$700,000 was due to decrease in prices.

Mr. HANSON: And of that amount how much is in the United States end of it?

Mr. VAUGHAN: Practically all the decrease in price is in the United States end, or very nearly all.

Mr. HANSON: Was there any decrease in the maritime price?

Mr. VAUGHAN: No.

Mr. HANSON: I am glad to hear it.

Mr. VAUGHAN: I might qualify that and say there was a little decrease in the coal we got at Levis and Montreal, delivered by boat.

Mr. McLEAN (*Melfort*): That decrease in the cost of wrecks, is that the percentage of traffic, or is it due to more efficiency?

Sir HENRY THORNTON: Mostly luck. You may have the best equipped railroad with the greatest safety appliances, and you may have the worst wrecks.

Mr. HANSON: Those are unavoidable?

Mr. CANTLEY: Last year you were good enough to give us some information in regard to the progress you were making in regard to diesel cars.

Sir HENRY THORNTON: We have a large mass of detail with respect to those, Colonel. I would say this, which perhaps will measureably answer your question: the employment of the diesel electric locomotive continues to be satisfactory.

Mr. CANTLEY: How many have you got?

Sir HENRY THORNTON: We are going on with the construction of that type of car, and we have at present eight four-cylinder diesel electrics, five six-cylinders, and two eight-cylinders. They continue to show very satisfactory operating results and, as I explained to you last year, I think, they represent, as far as our investigation proves, the best type of power for branch line service with insufficient traffic to justify steam service. Furthermore, the diesel electric

undoubtedly will have an important field in switching operations, because when switching an engine stands still and with the diesel electric there is no consumption of fuel; and in switching operations the shifter is not working a fairly large proportion of his time. We are building one or two this year for switching purposes, and I should think that they would probably have a very useful field in that character of work.

Mr. CANTLEY: My remarks last year were along the line of switching. I thought there was a very large field there.

Sir HENRY THORNTON: Yes, there is, and that is being pursued.

Mr. CANTLEY: Might I ask you where you are doing your experimental work in the building of these cars and the development of them?

Sir HENRY THORNTON: The engines, I believe, are now being built by the Canadian Westinghouse Company.

Mr. CANTLEY: I understood you to say that you were constructing these diesel electric units in your own shops.

Sir HENRY THORNTON: No, I am afraid you misunderstood me, because up until recently the engines were built by Beardmore's in Scotland, but rather recently the Canadian Westinghouse Company got the rights from the Beardmore works to build those engines in Canada, so that they are now being built here.

Mr. CANTLEY: That is, the whole engine complete.

Sir HENRY THORNTON: Yes, and they are being assembled and put on the chassis at, I think, the Kingston Locomotive Works.

Mr. HUNGERFORD: The cars themselves are being assembled at Hamilton.

Mr. CANTLEY: Have you not carried out some experimental work yourselves?

Sir HENRY THORNTON: We have completed our experimental work; the experiment is over. We are satisfied with the usefulness of the device for the peculiar purpose to which it is adapted, that is, for branch line use and for switching purposes.

Mr. CANTLEY: Would you care to indicate the amount that was expended in experimental work before you reached a decision?

Sir HENRY THORNTON: I do not know whether we can get at that or not.

Mr. CANTLEY: I think the matter is very important, and I also think you are proceeding along the right lines.

Sir HENRY THORNTON: Have you any idea, Mr. Hungerford, how much we spent?

Mr. HUNGERFORD: It would be very difficult to tell what was spent on experimental work.

Sir HENRY THORNTON: I should say it would not exceed half a million dollars. Now we find that the fuel economy in yard service will be about 75 per cent at the present price of coal.

Mr. CANTLEY: I should think your locomotive shunting engines would all be displaced.

Sir HENRY THORNTON: Not all.

Mr. CANTLEY: Well, very largely.

Sir HENRY THORNTON: There are certain drag freights, called yard locomotives, that pull heavy drags from one yard to another.

Mr. CANTLEY: I mean the ordinary shunting locomotives.

Sir HENRY THORNTON: I agree with you. I think the diesel electric, in shifting services, has a very wide and useful field, particularly in cities where it very materially reduces the smoke nuisance.

Mr. CANTLEY: I am not worrying about that. A certain amount of smoke is an advantage.

Sir HENRY THORNTON: Does that answer your question?

Mr. MILNE: There was a report out last year in connection with the hauling of one of the big trains from Toronto to Montreal with a diesel engine.

Sir HENRY THORNTON: That was an entire success; that is the big diesel electric known as the 9000. That locomotive, or that device, briefly put, developed as we expected it would a lot of crabs. You can take a relatively small thing which is successful and you multiply that by ten and build a very much bigger thing and you encounter trouble with that bigger thing which you did not find in the smaller thing. We fully expected that. Those troubles were chiefly due to lubrication.

Mr. CANTLEY: You made too big a jump at one time.

Sir HENRY THORNTON: No, I do not think we did at all. I am perfectly satisfied with it. Wait till you hear the story. Most of our difficulties were, in fact all of them, due to lubrication troubles.

Mr. CANTLEY: All progress is made by trial and error, but you profit by that experience and go on to something larger.

Sir HENRY THORNTON: It is just a question whether you are going to raise your opponent a nickle at a time in a jack pot, or raise him two dollars at one jump.

Mr. CANTLEY: I have had no experience in jack pots.

Sir HENRY THORNTON: I will tell you it is a very useful experience. Colonel. However, to go on with the story, we quite satisfactorily solved those lubrication troubles, but no sooner were those troubles out of the way when we had trouble with the main casting. That was due entirely to defective casting work in the shop, and had nothing whatever to do with the theory involved, and there is a new casting being made now, and as soon as that is installed I have no doubt we will find the device quite satisfactory.

Mr. GEARY: Is there any part of the device made in this country?

Sir HENRY THORNTON: The engine was made at Beardmore's works in Glasgow, and I think the electrical work was supplied by the Canadian Westinghouse Company. Everything except the main engine was built in Canada.

Mr. BELL (*St. Antoine*): Has this experiment taken place with any other railroad, or is this confined to the Canadian National?

Sir HENRY THORNTON: There are a certain number of diesel electrics of large size, and the New York Central, I believe, have some. I do not know how many there are on other railroads in the United States. The Russians have built quite a number of them, chiefly under the direction of Professor Lomozoff who was Professor of Steam Engineering at the University of Moscow or St. Petersburg, I forget which, and who is one of the great authorities on diesel electrics, and with whom we have been in correspondence. The Germans have two or three, and I think there is one in Sweden but I am not sure of that. None of them have been as successful as they should have been. I think, and we believe that we profited by the mistakes of the previous builders, and we believe that we have a large unit which is superior to any of the larger units yet adopted either in Germany or in Russia.

Mr. BELL (*St. Antoine*): Just to go back to the item of the Western Union; you say that you took over the Western Union?

Sir HENRY THORNTON: We bought the Western Union lines in the maritime provinces.

Mr. BELL (*St. Antoine*): They are out of Canada?

Sir HENRY THORNTON: Yes.

Mr. BELL (*St. Antoine*): It is all Canadian National Telegraphs.

Sir HENRY THORNTON: Yes. We did not buy the trans-Atlantic cable, you understand, merely the land lines.

Mr. FAIRWEATHER:

MISCELLANEOUS AND GENERAL EXPENSES

The comparison of expenses under miscellaneous operations for the year 1928 and 1929 is as follows:—

1928.. . . .	\$ 2,329,281
1929.. . . .	2,378,644
	<hr/>
Increase.. . . .	\$ 49,363
	<hr/>

Dining and Buffet Service shows an increase of \$108,323, which was to be expected in view of the increased service rendered.

Accounts for Restaurants and Grain Elevators show decreases of \$18,224 and \$58,747.

Mr. HANSON: Speaking generally, what does this cover?

Sir HENRY THORNTON: It includes dining car and buffet service.

Mr. COOPER: Details are given on page 22 of the Annual Report.

Sir HENRY THORNTON: That includes dining and buffet service, restaurants, grain elevators, producing power sold, and other miscellaneous operations. Other miscellaneous operations are small, about \$40,000 a year. It is mostly dining and buffet service.

Mr. GEARY: Where do the hotels come in?

Sir HENRY THORNTON: That is a separate account, No. 502.

Mr. FAIRWEATHER: 502 is the revenue; 534, expenses, and 535, taxes.

Sir HENRY THORNTON: In the Annual Report, items 502 and 504 are the revenues and expenses from the miscellaneous operations, that is in there.

Mr. FAIRWEATHER:

GENERAL

The expenses coming under the head of general expenses in 1928 and 1929 compare as follows:—

1928.. . . .	\$ 6,785,668
1929.. . . .	6,904,941
	<hr/>
Increase.. . . .	\$ 119,273
	<hr/>

The only item to show a considerable increase is Pensions. This is due to an increase of 44 in the average number of pensioners, the figure for 1929 being 1,952 as compared with 1,908 in 1928.

TRANSPORTATION FOR INVESTMENT CREDIT

Transportation for Investment, Credit, which represents the cost of transportation service incurred in connection with moving materials for capital account and which is deducted from the operating expenses and is charged to capital, compared in the two years as follows:—

1928 Cr.	\$ 1,806,264
1929 Cr.	1,962,227
<hr/>	
Increase Cr.	\$ 155,963

The greater activity in the carrying on of new construction and additions and betterments in 1929 as compared with 1928 accounts for this increase.

ANALYSIS OF OPERATION—EASTERN LINES

OPERATING REVENUE

In accordance with the revision of the Maritime Freight Rates Act, separate accounts for the lines east of Levis and Diamond Junction are prepared. The gross revenues of the Eastern Lines for the year 1929 amounted to \$30,618,007.22 and the operating expenses to \$33,815,382, resulting in an operating deficit of \$3,197,375. There was an increase in the gross revenue over the preceding year of \$2,658,660, and a decrease in the operating deficit of \$326,629. The comparative monthly earnings and expenses and net revenue from railway operations are given in the following table:—

	Gross Revenue		Operating Expenses		Net Revenue from Railway Operation	
	1928	1929	1928	1929	1928	1929
	\$	\$	\$	\$	\$	\$
January.....	1,945,017	2,195,862	2,395,673	2,525,341	— 450,656	— 329,479
February.....	2,117,679	2,222,862	2,422,268	2,624,743	— 304,589	— 401,881
March.....	2,649,857	2,666,562	2,604,901	2,624,428	+ 44,956	+ 42,134
April.....	2,426,651	2,660,642	2,570,011	2,636,803	— 143,360	+ 23,839
May.....	2,321,529	2,586,512	2,852,895	3,078,857	— 531,366	— 492,345
June.....	2,139,367	2,426,633	3,101,112	3,356,598	— 961,745	— 929,965
July.....	2,217,775	2,725,951	2,881,870	3,326,656	— 664,095	— 600,705
August.....	2,262,401	2,747,002	2,772,870	2,943,627	— 510,469	— 196,625
September.....	2,175,557	2,613,688	2,594,917	2,652,499	— 419,360	— 38,811
October.....	2,442,575	2,634,656	2,525,555	2,558,817	— 82,980	+ 75,839
November.....	2,272,576	2,424,169	2,437,461	2,604,303	— 164,885	— 180,134
December.....	2,988,364	2,713,468	2,323,819	2,882,710	+ 664,545	— 169,242
Total.....	27,959,348	30,618,007	31,483,352	33,815,382	— 3,524,004	— 3,197,375

SELECT STANDING COMMITTEE

Freight revenue increased from \$19,021,343 to \$20,982,595, an increase of \$1,961,252, or 10·31 per cent. Included in the freight revenues is the Government contribution for rate reduction, amounting to \$2,438,074·82. The volume of freight traffic and the variations from preceding year are shown in the following table:—

	Tons Carried	Percentage of Total	+Increase or —Decrease over 1928	Percentage of +Increase or —Decrease
Products of Agriculture.....	1,103,482	15·27	— 70,179	— 5·98
Products of Animals.....	87,202	1·21	+ 11,641	+15·41
Products of Mines.....	1,718,838	22·79	+271,344	+18·75
Products of Forests.....	2,274,497	31·48	— 94,376	— 3·98
Products of Manufactures and Miscellaneous.....	2,040,656	28·25	+292,752	+16·75
	7,224,675	100·00	+411,182	+ 6·03

Passenger revenue increased from \$4,959,717 to \$5,119,462, an amount of \$159,744, or 3·22 per cent.

OPERATING EXPENSES

The properties of the Eastern Lines of the Canadian National Railways experienced a considerable growth during the year 1929 by the acquisition of the Atlantic, Quebec and Western, and the Quebec and Oriental Railway. The operated road mileage was increased from 3,104·36 to 3,332·54 and miles of all track from 3,991·32 to 4,242·44. The operating expenses of the Eastern Lines by general accounts are as follows:—

Railway Operating Expenses	1928	1929
	\$	\$
Maintenance of Way and Structures.....	7,997,429 36	8,208,334 99
Maintenance of Equipment.....	5,664,650 29	6,575,682 36
Traffic.....	809,040 96	897,769 10
Transportation.....	15,340,874 73	16,390,607 29
Miscellaneous Operations.....	401,150 37	431,477 77
General.....	1,323,105 15	1,384,174 82
Transportation for Investment, Cr.....	52,899 34	72,664 03
Total.....	31,483,351 52	33,815,382 30

These expenses may be subdivided between Labour and Materials and Miscellaneous as follows:

Labour	1928	1929	Increase
	\$	\$	\$
Maintenance of Way and Structures.....	4,215,493	4,400,884	185,391
Maintenance of Equipment.....	2,952,250	3,497,881	545,631
Traffic.....	392,141	417,232	25,091
Transportation.....	10,127,220	10,807,684	680,464
Miscellaneous.....	220,754	238,643	17,889
General.....	654,539	678,847	24,308
Total.....	18,562,397	20,041,171	1,478,774

Materials and Miscellaneous	1928	1929	Increase
	\$	\$	\$
Maintenance of Way and Structures.....	3,781,936	3,807,451	25,515
Maintenance of Equipment.....	2,712,400	3,077,801	365,401
Traffic.....	416,900	480,537	63,637
Transportation.....	5,213,655	5,582,923	369,268
Miscellaneous.....	180,397	192,835	12,438
General.....	668,566	705,328	36,762
Transportation for Investment, Cr.....	52,899	72,664	19,765
Total.....	12,920,955	13,774,211	853,256

The increase in employees' compensation is caused by increased rates of pay \$344,834 and increased hours worked \$1,133,940. An analysis by general accounts follows:

	Rates of Pay Increase	Hours Increase	Net Increase
	\$	\$	\$
Maintenance of Way and Structures.....	135,635	49,756	185,391
Maintenance of Equipment.....	120,896	424,735	545,631
Traffic.....	1,455	23,636	25,091
Transportation.....	83,648	596,816	680,464
Miscellaneous.....	832	17,057	17,889
General.....	2,368	21,940	24,308
Total.....	344,834	1,133,940	1,478,774

The increase in material and miscellaneous, amounting to \$853,256, is made up as follows:

	Price Changes		Increase in Quantity	Net Increase
	Decrease	Increase		
	\$	\$	\$	\$
Maintenance of Way and Structures.....	79,022		104,537	25,515
Maintenance of Equipment.....		14,703	350,698	365,401
Traffic.....			63,637	63,637
Transportation.....		34,681	334,587	369,268
Miscellaneous.....		1,188	11,250	12,438
General.....		4,346	32,416	36,762
Transportation for Investment Cr.....			19,765	19,765
Total.....	24,104		877,360	853,256

Mr. HANSON: I see your legal expenses are dropping. That is satisfactory.

Sir HENRY THORNTON: Perhaps if we have sufficient litigation, we may correct that next year. Transportation for investment credit; just the usual items come in that. Now, gentlemen, you have gone over the main subdivisions of expenses; perhaps I should ask the chairman whether you wish to go over each one of the detailed items that enter into that, there are probably some hundreds of them. We will do it in any way that you like.

Hon. Mr. STEVENS: If you want anything on those estimates you had better explain them. I should not think it would be fair to ask us to agree to half of \$51,000,000 without looking at them.

The CHAIRMAN: Shall we take up the supplementary estimates, 1929-30, item 321?

Hon. Mr. CRERAR: We should take the estimates, 1930-31.

The CHAIRMAN: The Minister wants us to take up the estimates 1930-31. Item 323, Loans to Canadian National Railway Company. Is it desirable he should read the full details?

Hon. Mr. STEVENS: You have not the full details there. This is merely the form used year after year. Your supplementary estimates are exactly the same as your main estimates, and it does not give any detailed information. It may be applied to almost anything, the money may be used on anything required. I think that what we ought to have is a clear and concise statement of what you intend to do with the \$51,000,000, first.

The CHAIRMAN: Does it meet with the approval of the committee that, instead of giving the details, a general statement should be given on each item as it is called?

Mr. HANSON: The point Mr. Stevens makes is that you cover a mass of generalities, but there is absolutely no detail with respect to the financial expenditures.

Hon. Mr. CRERAR: That, I understand, will be furnished to the committee.

Sir HENRY THORNTON: We are going to give exactly what Mr. Stevens has asked for.

Mr. HANSON: Sir Henry, this is sort of a blanket vote, is it not?

Sir HENRY THORNTON: Yes.

Mr. HANSON: And you can switch this money, or any part of it, for any purpose that you require. It is a blank cheque, in other words.

Sir HENRY THORNTON: Within certain limits. We have avoided making any alterations; in other words, we have tried, in the preparation of this, to get as accurate a distribution as possible. It sometimes happens, not infrequently, as the year goes on, or something turns up, which is of greater importance than some other thing, and we have to switch in that case from one item to another, but those have not been very large amounts, or very numerous.

Mr. HANSON: The way the vote is placed in the estimates, there is no particular sum allocated to any particular thing.

Sir HENRY THORNTON: We try to prepare it as accurately as we can, and we try to stick to it, but you cannot always do it.

The CHAIRMAN: You would say that no part is earmarked for any particular item.

Mr. HANSON: That is what I mean; no item is earmarked, and we should have the details as to how it is proposed to be used.

Sir HENRY THORNTON: Any alteration which involves more than \$25,000 requires the approval of the government.

Mr. HANSON: That does not help us any. Would it not be well to give us a statement under item 323, showing for what the \$51,600,000 is required in so far as subsection A is concerned.

The CHAIRMAN: That is what is being done now.

Mr. HANSON: It does seem that we ought to have this stuff earlier. How can a layman possibly understand it this way?

Sir HENRY THORNTON: I think you are right. I said yesterday, as you will recall, that we prepared the information this year a little more in detail than we usually do, but I think that all the statements which are to be considered by the committee, ought to be in their hands a week before the sittings of the committee.

The CHAIRMAN: Distributed a week before.

Mr. CANTLEY: That is reasonable.

Hon. Mr. STEVENS: Suppose you start at A.

Mr. FAIRWEATHER:

Net Income Requirements after Interest Charges—Exhibit A.....	\$ 8,396,990 00
Other Financial Requirements—	
Retirement of Capital Obligations, including Sinking Fund and	
Equipment Principal Payments—Exhibit D.....	7,268,010 00
Acquisition Second Mortgage Bonds Admiral Beatty Hotel—Ex-	
hibit E.....	135,000 00
Net Financial Requirements.....	\$15,800,000 00
Capital Requirements—	
General Additions and Betterments (less Retirements)—Exhibit F.	28,550,000 00
Discount on Securities to be issued—Exhibit G.....	2,000,000 00
Proposed New Equipment Issue—Series "L"—Exhibit H.....	5,250,000 00
Net Requirements.....	\$51,600,000 00
Railway Operating Revenues.....	\$222,500,000 00
Railway Operating Expenses.....	184,482,240 00
Net Revenue from Railway Operations.....	\$ 38,017,760 00
Other Income <i>Debits</i> and Credits, Net.....	2,803,000 00
Net Income before fixed Charges.....	\$ 40,820,760 00
Interest on Funded Debt due Public—Exhibit B.....	50,441,750 00
Income Resources or <i>Requirements</i>	\$ 9,620,990 00
Amounts included above not representing Cash—Exhibit C (Details at-	
tached).....	1,224,000 00
Net Income Resources or <i>Requirements</i>	\$ 8,396,990 00

Sir HENRY THORNTON: You will understand, of course, Mr. Chairman and gentlemen, that that merely represents an estimate, and it has got to be a safe estimate.

Mr. HANSON: It ought to be an accurate estimate.

Sir HENRY THORNTON: It has been more than an accurate estimate, it has got to be safe. We have to be overly conservative in preparing an estimate such as this. My hope, and indeed my feeling is that the deficit will not be as much as has been shown in this report, but for reasons of safety it is the minimum amount that I care to put down.

Hon. Mr. STEVENS: This is the calendar year 1929-30.

Sir HENRY THORNTON: 1930.

Hon. Mr. STEVENS: That is your estimated deficit.

Sir HENRY THORNTON: Yes.

Mr. HANSON: You estimate you will have a deficit of \$8,400,000.

Sir HENRY THORNTON: Yes.

Mr. BELL (*St. Antoine*): That is on operation.

Sir HENRY THORNTON: That is the estimate of the amount that we fall short of paying interest on the securities in the hands of the public.

Mr. HANSON: As compared with last year, how is it?

Mr. COOPER: The amount for 1929 is \$9,977,000.

Hon. Mr. STEVENS: One point in this connection is that there is a list of securities that always give me a good deal of bother, and that is, I can never find a statement where the date of issue is given. You give the date of maturity, but you do not give the date of issue. They are sometimes put in under different headings, and you do not get the recent issues.

Sir HENRY THORNTON: There is no reason why that should not be done.

Hon. Mr. STEVENS: It is not shown in the list of public accounts either. This schedule B includes schedule A?

Sir HENRY THORNTON: Yes.

Hon. Mr. STEVENS: You just give the date of maturity and do not say where these have been issued.

Sir HENRY THORNTON: The date of issue?

Hon. Mr. STEVENS: Yes.

The CHAIRMAN: And where issued.

Sir HENRY THORNTON: It is a perfectly simple thing to do, Mr. Stevens.

Hon. Mr. STEVENS: I think it can be done. I do not ask for it this year but every year we have the same trouble. I have had to go through the public accounts and make an analysis: It sometimes is almost impossible.

Sir HENRY THORNTON: Next year, in the annual report and any information coming to the committee, the date of issue of the securities will be shown. It is a simple thing to do, and I do not know why we did not do it. Mr. Fairweather, will you put down the date of issue of securities under discussion mentioned in your report?

Mr. FAIRWEATHER: Yes.

Mr. HANSON: Sir Henry, you say that your net deficit will be less than a year ago?

Sir HENRY THORNTON: Yes.

Mr. HANSON: I do not see how that can be, if there is a shrinkage in revenue.

Sir HENRY THORNTON: Spending less money, greater efficiency. Everybody trying to save money on the railroad. A general campaign of economy.

Mr. HANSON: The shrinkage of earnings is so great that it seems to me that you have not made ample estimates for your requirements.

Sir HENRY THORNTON: We think we have. There are a good many things that can be postponed without serious damage to the property, and when earnings are good, and railways are doing well, you anticipate the future somewhat by doing things that are desirable to be done. On the other hand, when earnings are not so good you postpone and generally restrict. That is pretty much the same with the individual. He must. If his income is good, and increasing; he is more liberal in his expenditure, and he does things that he would not otherwise do. If his income falls, he economizes and would not buy a new car this year, or things of that sort.

Mr. CANTLEY: The item, Funded Debt to Public, \$50,000,000; what was the amount from the former year?

Mr. COOPER: The corresponding figure for 1929 is \$44,739,000.

Mr. HANSON: About six million more.

Mr. COOPER: \$5,700,000.

Sir HENRY THORNTON: That is due to increased capital for branch lines, all that sort of thing that adds to the capital.

Mr. HANSON: That statement accentuates the thought underlying my previous observation. If interest charges are \$6,000,000 more, I do not see how you can keep the deficit down to this figure.

Sir HENRY THORNTON: One thing I think that has a marked effect this year, as compared with previous years, has been the introduction of a method of dealing with our expenses. A railway is a good deal a state of mind. That is to say, the result of operations depend a good deal on the state of mind of the

officers and men throughout the railway. If their state of mind is a spending state of mind, if earnings have been good for a period of years, and new improvements have been introduced, and the company has been spending money, you get a spending state of mind all over the railroad. Not only is that true of this railroad, but it is true of every railroad that I have had anything to do with. On the other hand, if you create an economical state of mind and the officers and men become seized of the importance of economy, and it becomes a matter of competition to see how much money can be saved, and where it can be saved, then you begin to save money.

Mr. HANSON: You think you have got that atmosphere established?

Sir HENRY THORNTON: I am just coming to that. It does not make any difference what state of mind I may have, or the vice-presidents may have, the important thing is the state of mind of the men in the trenches doing the job. This year there has been introduced a monthly budget system, which I think we have developed to a little higher degree of perfection than exists anywhere that I know of. We estimate about the middle of each month, and each region estimates about what it expects its gross earnings to be. It sets a certain objective with respect to its expenses, and the objective is determined by calling in the heads of all departments on the region, who, under the chairmanship of the general manager, discuss their expenses and suggest to one another the ways to economize and how money can be saved. It becomes, then, really a sort of competition between departments to see which can save the most. All departments, and all officers realize the position in which the company is placed, and there is established a state of mind as a result of that. Those meetings have produced some quite remarkable suggestions from the officers themselves in the way of saving money. They lay out their program for the following month, and adhere very closely to it so that we know in Montreal pretty well by the latter part of any month what the net will probably be for the following month. Now, those monthly objectives are laid out in accordance with the program of expenditures which have been set up for the year. We, at the first of the year, make an estimate of what we think our gross may reasonably be, and then we apportion, as well as we can, the expenses to the different departments. Now, that is all right for the year, but in order to get the result for the year, you have also to check it month by month, because if you get a runaway on your hands, and the expenses are seriously exceeded for two or three months, you cannot catch up that year. It is very difficult to do, so that we set up a yearly objective and that is rationed month by month, and the object of these budget meetings on the different regions is to check that month by month, and to keep the expenses down to the monthly figure. In addition, it is to see if further economies cannot be introduced.

Mr. HANSON: I think that is the idea, and one that you should get across to the Minister of Finance. We have not had an estimate this year of what our nevéune is going to be.

Sir HENRY THORNTON: That is beyond my sphere.

Mr. HANSON: I agree with you on that, but suggest that you should get it across to him.

Sir HENRY THORNTON: Now, results so far have been extremely gratifying. I do not want to make any prediction because it is a dangerous thing to make predictions when the gross depends largely upon the volume of wheat crop, and nobody knows what that is going to be yet. I do not want to make any predictions, but there is a good fighting chance, if we have any kind of luck at all, that we will not have any deficit this year. That is what the boys are all trying to do, but I do not desire to put that in figures. I have got to allow myself some leeway; therefore, the general answer to your question, Mr. Hanson,

is that every item of expenditure is being closely scrutinized and determined not so much by the headquarters officers but by the men on the ground who are spending the money. In other words they are doing the examining, and it has been most gratifying the way things have turned out so far.

Mr. HANSON: Could you tell me what the increased interest charges are for the system since 1922?

Sir HENRY THORNTON: The growth in property investments, as is expressed in increased mileage, increased equipment and improvements in every phase of railroad activity—I think that will answer your question. The increase in property expense, the increase in the long-term funded debt held by the public for the period from 1923 to 1929—it amounts to an increase of \$318,000,000.

Mr. HANSON: That is what I asked you yesterday.

Sir HENRY THORNTON: That in turn, however, has contributed to an increase in the net revenue, within the same period from \$2,286,000 to \$58,383,000 in 1928.

Mr. HANSON: That is your peak year?

Sir HENRY THORNTON: That is the peak year. This year it was about \$44,000,000. In other words, what I mean to say is this, that the increase in capital which found expression in improved facilities and additions to the property is represented by \$318,000,000, but during the same period the net earnings did increase from rather less than \$3,000,000 to about \$58,000,000. A share of that was due to the economies which were the result of improved facilities purchased with the additional capital.

Mr. McLEAN (*Melfort*): Principally invested in branch lines and new equipment?

Sir HENRY THORNTON: Branch lines, new yards and all that sort of thing.

Mr. HANSON: That is not the point of my question at all. I want to know how much more money you are paying in actual interest to the public.

Mr. COOPER: We would have to get that for you.

Sir HENRY THORNTON: It is about \$15,000,000.

Mr. COOPER: I would say it was around \$30,000,000 in 1922 and \$45,000,000 in 1929.

Hon. Mr. STEVENS: It is about \$20,000,000 more according to this statement.

Mr. COOPER: I do not think it is as much as that, Mr. Stevens.

Sir HENRY THORNTON: This discussion was provoked by the deficit of \$8,396,000.

The next item for financial requirements represents retirement of capital obligations, including sinking fund and equipment, principal payments, and that is Exhibit D.

Hon. Mr. STEVENS: I was trying to get a question in edgewise on this Exhibit B. You borrowed this year \$60,000,000 and \$60,000,000, that is, \$120,000,000, and \$15,000,000, or \$18,000,000, was it?

Mr. COOPER: \$18,000,000.

Hon. Mr. STEVENS: Is that the total for last year, and next year you propose borrowing \$110,000,000, or for 1930, and \$15,000,000 and \$700,000, is that all for this year?

Sir HENRY THORNTON: That is the lot.

Hon. Mr. STEVENS: What will the \$110,000,000 cover?

Sir HENRY THORNTON: The total requirements for the year are 162½ million dollars.

Mr. FAIRWEATHER: Yes, of which \$8,400,000 is cash from the government; \$6,523,000 are resources from the Grand Trunk Western; \$876,000 comes from the resources from the Central Vermont, and \$9,100,000 are funds available in special accounts, and the balance of \$137,637,000 is by the issuance of securities of which 56½ million dollars is refunding.

Mr. HANSON: So that the net increase of your capital indebtedness for the year is how much outside of your funding operations?

Mr. McLEAN (*Melfort*): It would be \$81,000,000.

Mr. FAIRWEATHER: Yes, \$81,000,000.

Mr. McLEAN (*Melfort*): That is for branch lines, new equipment and betterment.

Hon. Mr. STEVENS: Out of that refunding you are paying off the guarantee by the province of Manitoba?

Sir HENRY THORNTON: That is included here.

Hon. Mr. STEVENS: It does not show the amount.

Sir HENRY THORNTON: I think I can tell you the amount—\$20,000,000.

Hon. Mr. STEVENS: That relieves the province of Manitoba of its guarantees?

Sir HENRY THORNTON: Yes.

Hon. Mr. STEVENS: The new bonds or the refunding will not carry their guarantees?

Sir HENRY THORNTON: No.

Mr. HANSON: Is it the fixed policy with all those securities guaranteed by the various provinces, when maturing, that the provinces are going to be automatically released?

Sir HENRY THORNTON: I do not know that any definite policy has been decided. Personally I think they should be. After all, I do not think that the provincial guarantee means much one way or the other. That is to say, if the Canadian National Railways got into such a condition that there was a foreclosure or a receiver appointed, I think the government would have to step in in the interests of the people and protect the property as any creditor would protect a property in which he had an investment.

Mr. HANSON: That is a matter of expediency.

Sir HENRY THORNTON: Entirely. I am merely expressing a personal opinion. Others may differ, but I have never thought the provincial guarantees really meant very much one way or the other.

Hon. Mr. STEVENS: They mean quite a bit in one way, because in this refunding you are refunding a four-per cent bond by a five-per cent bond. That means the federal government will have to pay one per cent more, or the company has to pay one per cent more. Do you not think you could have the Dominion government guarantee a little cheaper money than five per cent?

Sir HENRY THORNTON: No, I do not think you could. We have skinned the bankers pretty close when it comes to the interest rates and the price of our securities in the last year, and I think the general feeling is that we have done pretty well.

Mr. HANSON: They are pretty hard-boiled.

Sir HENRY THORNTON: They are a hard lot to deal with. But comparing our issues and the price which was obtained for our securities with the price obtained for comparable securities, I think our price has been quite satisfactory.

Mr. HANSON: They classify these securities, do they not? Straight Dominion government loans are a little better than yours?

Sir HENRY THORNTON: Yes.

Mr. HANSON: Provincial government borrowings are a little better than yours.

Mr. GRANT: Possibly the province of Quebec's are a little better.

Mr. HANSON: The province of New Brunswick is just as good as the province of Quebec.

Mr. GRANT: So far as the other provinces are concerned, with the exception of the province of Ontario and the province of Quebec, I think our price is a little better.

Hon. Mr. STEVENS: I would like to get the facts regarding that \$110,000,000. I have often wondered about the various provincial guarantees. There have been a lot of guarantees for the various roads which are now part of the national system, and it does seem to me that there is a question there about the wiping out of those guarantees without any consideration whatever. You are paying, in this instance, on that \$20,000,000, one per cent per annum.

Sir HENRY THORNTON: Is it your thought that if we relieve the provincial governments from that guarantee that they ought to do something for us in return?

Hon. Mr. STEVENS: I think they ought to do something. It is a question whether it should not be examined into.

Sir HENRY THORNTON: I am only speaking generally and I only express my personal opinion. If there is any way of getting anything out of them for it I should not object in the least, and I suppose that would have a start in this committee.

Mr. McLEAN (*Melfort*): Is not the situation this, that they have a guarantee, and if you do not pay they will take the property.

Sir HENRY THORNTON: That is what it comes to, and we cannot let them have the property. It really means, in the last analysis, that we are the goats.

Mr. HANSON: Is it true that in each and every case they have a guarantee?

Sir HENRY THORNTON: If there was default, and they were obliged to make good on their guarantee, I should think legally—and you can answer this better than I because you are a lawyer and I am not—they could take the property.

Mr. HANSON: It would depend entirely if they got security at the time. If they did not have the security they would only be ordinary creditors.

Sir HENRY THORNTON: I would take your opinion on that rather than my own.

Hon. Mr. STEVENS: Let us illustrate that? Take this Gilbert Plains branch. I do not know where it is or anything about it.

Hon. Mr. CRERAR: A fine country.

Hon. Mr. STEVENS: That is a paying branch.

Hon. Mr. CRERAR: I think probably it is.

Hon. Mr. STEVENS: I am just asking, because someone rather laughed at my suggestion. I put it to the management now: You are retiring the bonds of the Gilbert Plains branch. Is that a good piece of road? Are you justified in paying one per cent per annum more on that?

Sir HENRY THORNTON: I think in that particular branch line it is. There might be some branch lines though where it would not.

Hon. Mr. CRERAR: That particular branch line, while it is described as a branch line there, is part of the main line from Winnipeg to Edmonton.

Hon. Mr. STEVENS: I think this ought to be scrutinized with care, and I do not think we should take in every lame duck indiscriminately, if there are any.

Sir HENRY THORNTON: Of course, we have the lame ducks now. They are part of the flock, and the flock is called the Canadian National Railways system, and it would be, I think, undesirable in the public interest to break up the flock in the event of any foreclosure proceedings and disintegrate the Canadian National Railways system. Therefore, it means this, if that is going to be prevented, the government has got to assume the liability of the provinces, and, therefore by that same reasoning, it never appealed to me that the guarantee of the province was really worth bothering about one way or the other because the government would have to maintain the system intact.

Mr. HANSON: The provinces are sitting tight and letting you do the squirming, if there is any to be done.

Sir HENRY THORNTON: Well, there are a whole lot of interests that are doing that, provinces and others.

Mr. HANSON: There is no doubt the province probably would have to renew the guarantee if they were called upon to do so.

Sir HENRY THORNTON: I do not want to be bothered with it, personally.

Mr. HANSON: I think you are wise.

Sir HENRY THORNTON: When you want to do anything you get into a horse-trading match with the provinces, and that is almost interminable.

Mr. McLEAN (*Melfert*): It was provided in the agreement, I think, that if after the second payment had passed the province could take possession of the road.

Sir HENRY THORNTON: That is right.

Mr. McLEAN (*Melfert*): I know one province that was absolutely prepared to take possession of the road and to dispose of it to suit themselves later on, because there was no question about the value of the line. The branches were through a good territory; they were paying branches, and they would have no trouble or loss in taking them over. I think, generally speaking, the prairie branches are in that position to-day, and have been most of the time, particularly to-day after you have bettered them and improved the property.

Sir HENRY THORNTON: I think there are a good many of these so-called branch lines on which securities have been issued where, in the event of trouble, the Province will be very glad to take the branches over, but that would be the worst thing that could happen the system, if you want to maintain the Canadian National Railway system. As time goes by we will eventually hammer this system into not only an operating entity but also a financial entity on a sound financial basis. I may never live to see the day, but the day unquestionably will come when the Canadian National Railways will from purely the financial point of view be a very valuable asset to the people of Canada quite apart from its strategical transportation position.

Mr. HANSON: Coming down to the proposed equipment trust issue of 15½ millions for this year, those are issued serially, are they not?

Sir HENRY THORNTON: Yes. Mr. Cooper, I think, has some information prepared on that. Perhaps you can explain that situation to Mr. Hanson.

Mr. HANSON: Falling due so much each year. What is the usual life of these.

Mr. COOPER: The usual life is fifteen years.

Mr. CANTLEY: I thought it used to be ten.

Mr. COOPER: It is fifteen to-day.

Sir HENRY THORNTON: It runs from 10 to 20 years ordinarily.

Mr. HANSON: This proposal is fifteen years.

Mr. COOPER: Yes, sir.

Mr. HANSON: Maturing annually one-fifteenth each year.

Mr. COOPER: Yes.

Mr. HANSON: Payable out of earnings.

Mr. COOPER: Well, not in our case.

Mr. HANSON: That is just the point I am coming to.

Mr. CANTLEY: There is an initial payment of what, 10 per cent.

Sir HENRY THORNTON: Twenty-five per cent.

Mr. HANSON: How is that twenty-five per cent provided for—out of long term funding.

Sir HENRY THORNTON: That 25 per cent is included in this request. That is a capital sum—

Mr. HANSON: That is a capital expenditure, of course, and is included in the request to the government.

Sir HENRY THORNTON: I think I know what you have in your mind. Perhaps Mr. Cooper will be good enough to explain the whole thing to Mr. Hanson.

Mr. COOPER: We anticipated that you were going to question the fact that we are taking care of equipment principal retirements by further borrowings. Is that what you had in mind.

Mr. HANSON: It is hardly accurate to say further borrowings. What I understand is the position, that you take care of the annual serial payments by long-term funded securities.

Sir HENRY THORNTON: That is right, and I thought you would want some further information with respect to that, and I asked Mr. Cooper to examine that and he will now explain the point.

Mr. COOPER: It is not quite true to say that in every case we take care of the retirement by a long-term issue. There have been cases where we have taken care of the equipment serial payments by cash loans from the government, but for this purpose I think we can say that we are taking care of these serial retirements out of further bond issues.

Mr. HANSON: Long dated borrowings.

Mr. COOPER: Yes. That is inevitable in view of the fact that our net income does not give us a surplus over and above fixed charges. We have to borrow the money and so there is an apparent perpetuation of debt.

Mr. HANSON: There is a real perpetuation of debt.

Mr. COOPER: No, it is only apparent. That is only one side of the account. You must examine the debt account and the investment account and the operating expense account before you see the whole picture. I think I can show that while there is an apparent perpetuation of debt, there is on the other hand, an invisible substitution of assets which regularizes the situation. When equipment is retired from service its ledger value is written out of the investment account. The net change in investment account represents the additional cash outlay for additions and betterments during the period, less the book-keeping entry for retirements. It is the net change in investment account against which we issue securities. Consequently there is an amount of new investment expenditure made equivalent to the amount of equipment retirements against which we do not issue new securities. In other words other property is substituted for the retired equipment without any addition to the funded debt.

When equipment is retired from service its ledger value, less salvage, is charged to operating expenses. This is a book-keeping entry, not a cash transaction. Book-keeping charges against income reduce the net income as shown by the accounts, below cash net income. That is, there is cash in the treasury, in excess of the net income shown by the accounts, to the amount of the equipment entries referred to. Salvage is cash or its equivalent. Consequently there is cash available in the treasury equal to the ledger value of equipment retired, and it is this cash which permits new investment expenditures to the same amount without further financing.

Therefore, we say that there is a substitution of capital assets for equipment which is retired from service, and that the apparent perpetuation of debt against property which has been used up in service is only apparent and not an actual fact.

Sir HENRY THORNTON: It is quite complicated.

Hon. Mr. STEVENS: Your retirements are charged against your operating income, is that correct.

Mr. COOPER: Yes, sir.

Hon. Mr. STEVENS: To make that clear to one not familiar with all this class of accountancy, take for instance an engine that becomes obsolete; we will say it is twenty years old, for the sake of illustration, costing \$20,000 or \$30,000.

Mr. COOPER: \$20,000?

Hon. Mr. STEVENS: It has been standing on your books as an asset of \$20,000, no depreciation charge against it.

Mr. COOPER: No.

Hon. Mr. STEVENS: It is retired this year as obsolete.

Mr. COOPER: Yes.

Hon. Mr. STEVENS: Do you mean to tell me you charge your income with the full \$20,000.

Mr. COOPER: Less any salvage which there might be.

Hon. Mr. STEVENS: Where does your salvage go—into the income revenue account?

Mr. COOPER: Salvage represents assets on hand. It is either cash or second-hand material.

Hon. Mr. STEVENS: Supposing you scrap it.

Mr. COOPER: Assuming it had no salvage value the whole \$20,000 would be charged to operating expenses.

Hon. Mr. STEVENS: I think we had this question asked and answered a couple of years ago.: Under the Interstate Commerce Commission system they set up a depreciation fund every year, do they not.

Mr. COOPER: Yes, sir.

Hon. Mr. STEVENS: A certain amount every year.

Mr. COOPER: Yes, and to that extent we differ from the Interstate Commerce Commission system.

Hon. Mr. STEVENS: I remember we discussed this at considerable length.

Mr. COOPER: It has been discussed every year, Mr. Stevens.

Hon. Mr. STEVENS: And we are not quite clear on the former discussion as to which was the better system, but I think we agreed that your system was fair.

Sir HENRY THORNTON: You will find, Mr. Stevens, a division of opinion. There are some experts, thoroughly reputable accountants, who will advocate one system and almost an equal number the other.

Hon. Mr. STEVENS: I do not want to appear unduly critical of the system. As a matter of fact, I have always had the greatest admiration for Mr. Cooper and his accountancy system. But here we are voting each year large sums of money, and this year we are voting \$50,000,000 in this item we have before us. Part of that will be paid out for payments of these equipment trust issues.

Mr. COOPER: Yes.

Hon. Mr. STEVENS: Is that in Exhibit D?

Mr. COOPER: Yes.

Hon. Mr. STEVENS: That is the amount that will be applied for that purpose this year, \$7,268,000.

Mr. COOPER: Exhibit D includes other things besides equipment.

Hon. Mr. STEVENS: Yes, I see it does, but still it is equipment very largely?

Sir HENRY THORNTON: Yes.

Mr. COOPER: In 1929 the equipment principal retirement was \$4,891,000.

Hon. Mr. STEVENS: We are voting you this year \$15,750,000 for a new issue of equipment bonds, and we are voting you about \$6,000,000, or maybe a less less, to pay the annual payments on bonds already issued. That means that on the equipment question we are really giving you \$22,000,000 this year.

Mr. COOPER: I do not think you are giving us \$22,000,000, Mr. Stevens. There is only \$15,750,000 additional yet.

Hon. Mr. STEVENS: How much surplus do you have as a result of the charging up of obsolete retirements this year?

Mr. COOPER: In 1929?

Hon. Mr. STEVENS: Yes.

Mr. COOPER: About \$4,300,000.

Hon. Mr. STEVENS: That goes into what, into new equipment or what?

Mr. COOPER: It means cash in the treasury which I tried to show was used for capital expenditures, which in turn do not need to be financed by the issue of new securities.

Hon. Mr. STEVENS: Well, does that appear in these figures that we got?

Mr. COOPER: The operation figure of eight million plus has been charged with the estimated amount in 1930 for equipment retirements.

Mr. HANSON: I may say, Sir Henry and Mr. Cooper, that this is a matter that has more or less troubled me, because in industrial concerns that method of financing would not get by, but I understand there is justification for it, as per the statement of Mr. Cooper. I think this is a fair statement; if it is not, I would like you to say so. You adopt this principle due to the exigencies of the situation, do you not? That is to say, your earnings are not sufficient to take care of these retirements.

Sir HENRY THORNTON: Fundamentally, that is correct.

Mr. HANSON: I think you practically admitted that in the opening statement you made.

Sir HENRY THORNTON: Except in this way, in order to protect the public from certain railway financial showings which would furnish an argument—and perhaps an irrefutable argument for increased freight rates—various regulatory commissions have caused the railway companies, or have prevented the railway companies from making too heavy charges to their expenses. For instance,

years ago it used to be the policy on the Pennsylvania Railroad to really create capital expenditure out of net earnings. In other words, expenses were theoretically unduly loaded. Now, to prevent that, the present system of accounting has been introduced not only in the United States but in Canada and elsewhere. Consequently a railway company, a profitable railway company, is really denied the privilege of frugality with respect to the future which is often open to private concerns. In so far as the Canadian National Railway Company is concerned, we have no margin of profit. That is to say, if we earn enough money to meet annually the interest on securities in the hands of the public we are doing about all that can be expected at the moment. If we were earning all of our fixed charges, including our obligations to the government, and had surplus money, we would unquestionably endeavour to pursue a different policy than we are pursuing to-day although from a technical accounting point of view, what we are doing to-day has the best accounting knowledge that we have. Some accountants may differ as to whether we should make an annual depreciation charge with respect to equipment or whether we should pursue the policy which we are pursuing. There is a difference of opinion among experts.

Mr. HANSON: Of course, in industrial life an industrial company sets up a depreciation reserve. You don't do that.

Sir HENRY THORNTON: No, we don't do that.

Mr. HANSON: You take care of it in the manner indicated by Mr. Cooper.

Sir HENRY THORNTON: There is a difference of opinion as to which is the better.

Mr. HANSON: But your selection of that method is due to the difficulties, I may say, of your position.

Sir HENRY THORNTON: Yes, precisely.

Mr. COOPER: Not quite.

Sir HENRY THORNTON: I am always subject to the advice of counsel. I do not know everything.

Mr. COOPER: If the suggestion is that if we were a prosperous concern we would retire this debt by charges to operating expenses, I say that that is not only quite improper accounting, but that it is absolutely prohibited by the regulatory bodies, or body, which is in our case the Interstate Commerce Commission.

Mr. HANSON: Is there any regulation in Canada with respect to that?

Mr. COOPER: Yes, there is.

Mr. HANSON: The railway commission has no jurisdiction over that sort of thing.

Mr. COOPER: They have prescribed a form of accounting which is moulded very closely on that of the Interstate Commerce Commission. It is true they do not police the regulations to the same extent, but the absence of the policeman does not make us any the less prone to observe the strict letter of the regulation. But assuming that you are speaking of the prosperous United States lines, they would take care of their debt requirements in precisely the same way, so far as accounting is concerned, as we ourselves do.

Hon. Mr. STEVENS: How do you do on the Grand Trunk Western?

Mr. COOPER: We do exactly the same thing.

Hon. Mr. STEVENS: I thought you came under the Interstate Commerce regulations.

Mr. COOPER: Oh, well, I was speaking of debt retirement.

Sir HENRY THORNTON: With respect to American lines we follow precisely the regulations of the Interstate Commerce Commission. With respect to our Canadian lines, in this matter we pursue a different course from the Interstate Commerce regulations.

Hon. Mr. STEVENS: I am speaking of equipment trust funds.

Mr. COOPER: Yes.

Hon. Mr. STEVENS: On your American lines you follow the Interstate Commerce regulations?

Mr. COOPER: We would not be permitted to charge that annual amount to operating expenses. It is not an operating expense in any shape or form.

Mr. HANSON: I quite agree with that except as to the amount of the depreciation.

Mr. COOPER: If you are speaking of depreciation that is another matter.

Mr. HANSON: But you may be allowed to put in betterments?

Mr. COOPER: No, not at all, nor debt retirement. That is not an operating charge at all.

Mr. HANSON: In a manufacturing or industrial concern, it would be put in as a betterment. The difference between the old equipment and the new, where a locomotive has been scrapped, and a new one substituted, would be a capital expenditure, would it not?

Mr. COOPER: That is a difference of opinion, whether operating expense should pay the cost of replacing a machine, or the cost of the machine which has been worn out in service. That is to say, dealing with the original costs or the present day costs.

Mr. HANSON: They do it two ways; one way is to charge the difference in the cost to depreciation reserve.

Mr. COOPER: Charge to depreciation the difference in cost?

Mr. HANSON: Yes.

Mr. COOPER: I thought they would charge the additional cost to investment.

Mr. HANSON: Maybe you are right; I would not contradict you, because I am not accountant enough to do so.

Mr. COOPER: The fact is that we are a public utility and are regulated, therefore we have no option.

Mr. HANSON: That is in the United States.

Mr. COOPER: I think the same applies in Canada.

Mr. HANSON: You follow the same system anyway.

Mr. COOPER: Yes.

Mr. HANSON: I think I understand the reason for your system, and appreciate the reason, but how does it work out in the net result? Is not part of this long-term financing which you use to refund short-term financing eventually loaded, or a part at all events, eventually loaded into your funded settled debt.

Mr. COOPER: I do not think so.

Mr. HANSON: None of it?

Mr. COOPER: I do not think you can relate the life of securities to the life of the physical property against which the securities are issued.

Mr. HANSON: There is no relation?

Mr. COOPER: I do not say you should relate them; I do not think you can; otherwise you could never issue perpetual securities because you have no physical property that is perpetual.

Mr. HANSON: Oh, yes, land always is; that is the one exception.

Mr. COOPER: It is so far as the physical thing itself is concerned, but the value is not stationary.

Mr. HANSON: Not absolutely.

Mr. COOPER: You could have depreciation in your land values which would be the same thing as a wasting of the land itself. So long as we maintain our assets, our financing is sound. We can properly issue securities against capitalizable assets. If we maintain those assets by renewal or by substitution as in the case of fixed property for rolling stock equipment, we are still maintaining dollar for dollar behind our securities.

Mr. HANSON: I am obliged for the explanation, but my training has not been in railroad finance. It has been largely in industrial finance, and by reason of that fact my views were otherwise, and I am free to say that I think I understand the reason of the thing, and I suppose, as an accounting or actuarial problem, whether it is sound or not, I am not prepared to say.

Sir HENRY THORNTON: To be absolutely fair, of course, when you get into a theoretical discussion with respect to railway accounting, you may go almost anywhere.

Mr. HANSON: You soon go beyond my depth.

Sir HENRY THORNTON: Well, I will admit that I am with you.

The CHAIRMAN: Any more questions on item 323?

Hon. Mr. STEVENS: We have just got started. The item Beatty Hotel, what about that?

Sir HENRY THORNTON: That represents an additional investment which we made in that hotel.

Mr. HANSON: It is due to the enlargement. You took up your proportion.

Sir HENRY THORNTON: The Canadian Pacific put up an equal amount. In schedule B you are down to the net finance requirements.

Mr. HANSON: Just what is your interest in the Beatty hotel, anyway?

Sir HENRY THORNTON: We own 250 shares of 7 per cent preferred stock, listed at \$22,500; 250 shares preferred stock, that is, 100 ordinary shares, which were given as a bonus, of no value. At least, to be carried on the books at no value. We have 50, six per cent second and refunding mortgage gold bonds, due January first, 1940, which cost us \$50,000, and we have 41, six per cent second and refunding mortgage gold bonds also due January 1st, which cost \$41,000; a total of \$113,500. By resolution of the directors of the Canadian National Railway, authority was given for the purchase of \$25,000 bonds and stock, the Canadian Pacific making a similar purchase.

Mr. HANSON: Is that part of the \$135,000?

Sir HENRY THORNTON: Yes. Furthermore, we have agreed to take 135 bonds at \$1,000 each. So far we have taken up 41 bonds, representing \$41,000. We are to take up the remainder as and when required by the hotel authorities, which will be as the work on the hotel progresses.

Mr. HANSON: So that you will have about \$273,000.

Mr. COOPER: We shall have altogether \$207,000.

Mr. McLEAN (*Melfort*): \$207,000?

Mr. COOPER: Yes, \$207,000.

Hon. Mr. STEVENS: You still have about \$60,000 of those to take up.

Mr. FAIRWEATHER: We have \$94,000 to take up.

Hon. Mr. STEVENS: That will be in addition to the \$207,000.

Mr. FAIRWEATHER: No; that would be included in the \$207,000.

Sir HENRY THORNTON: Our total investment will be \$207,000, which is similar to the amount that the Canadian Pacific have taken up.

Hon. Mr. STEVENS: What is the total value of the hotel?

Sir HENRY THORNTON: Our fixed assets, \$1,440,000.

Mr. HANSON: The C.P.R. interests is similar to yours?

Sir HENRY THORNTON: Yes.

Mr. HANSON: Exactly?

Sir HENRY THORNTON: Yes. Now shall we go on with the capital requirements?

Mr. FAIRWEATHER: General additions and betterments, Exhibit F.

ESTIMATED CAPITAL EXPENDITURES FOR ADDITIONS AND BETTERMENTS
1930

	Items under \$25,000	Items of \$25,000 and over	Total
	\$	\$	\$
Central Region, excluding Eastern Lines.....	1,832,557	6,229,842	8,062,399
Western Region.....	3,171,400	8,046,844	11,218,244
Grand Trunk Western Lines.....			Nil
Electric Lines in Ontario.....			28,300
Subsidiary Companies.....			4,468,802
Telegraphs and Telephones.....			837,360
Canadian National Express Company.....			55,000
Canadian National Railway Company.....			3,580,595
Eastern Lines.....	1,506,802	2,592,998	4,099,800
			32,350,500
Less: Retirements.....			3,800,500
Total.....			28,550,000

Hon. Mr. STEVENS: Those details are all included under schedule F.

Mr. FAIRWEATHER: Schedule F.

Hon. Mr. STEVENS: They are the details, and I do not know that it is necessary to go over those. These expenditures are all required, Sir Henry.

Sir HENRY THORNTON: Of course, each year the regional general manager sends in a list of additions and betterments to the property. Then we take those and adjust them to whatever our financial position may be.

Mr. HANSON: Whatever you think you can do.

Sir HENRY THORNTON: We reduce them very largely because, quite naturally, every regional general manager wants to improve his property and get the most out of it. But that is the amount that is put down this year, and represents the absolute minimum which the vice-presidents and myself, after carefully combing the thing, thought we could get on with.

Mr. HANSON: The western region is getting about \$11,000,000; that includes the new construction.

Sir HENRY THORNTON: It includes all new construction. It does not include branch lines.

Mr. HANSON: You finance that otherwise.

Sir HENRY THORNTON: Yes.

Mr. HANSON: It includes your capital betterments?

Sir HENRY THORNTON: Yes.

Mr. HANSON: What about the railway bridge at Fredericton; is it safe?

Sir HENRY THORNTON: What about it?

Mr. HANSON: What is the condition of that bridge? Perhaps you do not want to say anything about it here.

Sir HENRY THORNTON: I will tell you anything. It is a light bridge, and only permits the use of a certain type of power, and some day I hope it will be renewed.

Mr. HANSON: It has been on the carpet for a long time.

Sir HENRY THORNTON: Oh, yes.

Mr. HANSON: You have not got around to it yet, but you will some day.

Sir HENRY THORNTON: There are a good many things that we ought to do, but this year we had to postpone everything.

Mr. HANSON: I think you are right; I am not asking you to rebuild it.

Mr. CANTLEY: How many miles of wooden trestles are left?

Sir HENRY THORNTON: We are making substantial progress in getting rid of the wooden trestles.

Sir HENRY THORNTON: A large item in the improvement of road and track facilities has been the elimination of timber trestles and the replacement of them with permanent bridges or earth embankments. Altogether, in the seven-year period 148,205 lineal feet of trestle has been so replaced. If put end to end this would represent twenty-eight miles of timber bridges. We have been persuing the renewing of timber trestle bridges as rapidly as we can.

Mr. CANTLEY: How many miles remain, roughly.

Mr. HAZEN: Something like eighty-five miles.

Mr. CANTLEY: Eighty-five miles?

Sir HENRY THORNTON: Something like that.

Mr. CANTLEY: What was the mileage when you took over the property, roughly.

Mr. HAZEN: A little over eighty miles.

Sir HENRY THORNTON: Roughly eighty-five miles left.

Mr. McLEAN (*Melfort*): You are still reducing the number of wooden trestles.

Sir HENRY THORNTON: Yes, considerably.

Mr. GRAY: Is the rock ballast complete, Sir Henry, between Montreal and Sarnia?

Sir HENRY THORNTON: No, that is another thing that we are pushing on as rapidly as possible. In that connection it is only fair to say that when the railways were consolidated in 1922 this administration found a large accumulation of things such as rock ballast and things which would involve the introduction of rock ballast, automatic signals, replacement of wooden bridges, new stations, elimination of grade crossings and a great many things of that sort which the old proprietary companies ought to have done years and years ago.

Mr. CANTLEY: And could not because they did not have the money.

Sir HENRY THORNTON: Probably that was the reason at any rate we were confronted with an accumulation of what you might call deferred improvements. That is the burden which we have had to meet, it has added to our expenses but we have pursued it as actively as our financial position would permit.

Mr. McLEAN (*Melfort*): Speaking of rock ballast, is anything being done to abate the dust nuisance on some of your branch lines?

Sir HENRY THORNTON: That is a source of anxiety and study on the part of the officers. There is only one effective remedy for dust; that is rock ballast.

Mr. CANTLEY: Or slag ballast.

Sir HENRY THORNTON: Or slag, or some form of ballast which does not produce dust. There are temporary expedients such as watering the track and

the use of oil, but they are only temporary remedies. It represents the spending of money, but sometimes it has to be done. Between Toronto and Montreal we are making a study of that condition to see what we can do to reduce the dust but the only effective answer is rock ballast.

Mr. McLEAN (*Melfort*): Oil would be too expensive in comparison with its duration.

Sir HENRY THORNTON: The trouble with oil is that it is expensive, and in the second place there is no use using oil until the seasonal track work has been done because after you have spread oil if you disturb the ballast you spoil the effect of the oil. On some railways where you can get the maintenance work done, the ties in early in the year, oil has been used with a fair degree of satisfaction, but at best it can only be regarded as a temporary paliative.

Mr. McLEAN (*Melfort*): Is rock ballast a thorough solution of the difficulty?

Sir HENRY THORNTON: It is a complete solution.

Mr. CANTLEY: What do you do in Prince Edward Island?

Sir HENRY THORNTON: We are bringing ballast from the Island and gravel from the mainland which is very expensive. If anybody can find a gravel pit on Prince Edward Island I would be quite willing to pay a handsome bonus for it.

Mr. CANTLEY: The Lord did not put it there but there is lots of slag at Sidney.

Sir HENRY THORNTON: I have heard of that but the cost would be more than for gravel ballast.

Mr. CANTLEY: You will not get clear of the dust with gravel ballast.

Sir HENRY THORNTON: We have not very many high speed trains on the Island.

Mr. CANTLEY: I think you will agree with me on that.

Sir HENRY THORNTON: I can write a book on slag ballast. I was brought up on it. I operated a division on which there were fifty blast furnaces and the amount of slag that we had to contend with would make your hair curl. It is a good ballast provided there is not too much lime in it. A good hard slag ballast is pretty near as good as rock.

Mr. CANTLEY: I think it is better in some respects.

Sir HENRY THORNTON: I would not go that far.

Mr. CANTLEY: It is better so far as the growth of weeds and drainage is concerned.

Sir HENRY THORNTON: Colonel, I have seen the most luxuriant growth of vegetation in slag ballast as anywhere.

Mr. CANTLEY: You have had a different experience from mine.

Sir HENRY THORNTON: I have seen lovely lawns grown on slag ballast.

Mr. CANTLEY: Under what climatic conditions?

Sir HENRY THORNTON: About the same as we have here. There is lime in it and it promotes vegetation. I have struggled with grass in slag ballast just as much as I have in limestone and there is not very much difference.

Mr. CANTLEY: I will have to argue that out with you in a different place.

Mr. HANSON: What are you doing with the main line between Levis and Truro. I notice you have an item 166,000.

Mr. HAZEN: That is made up of a lot of details.

Mr. HANSON: Are you putting down new rails?

Sir HENRY THORNTON: New rails and fastenings, 129 miles of new rails. That is one of the larger items, and tie-plates. Then there is additional, right-

of-ways fences at different places, new freight terminals at Charleston, passenger terminals at Halifax and Yarmouth.

Mr. HANSON: Is that all under one item?

Sir HENRY THORNTON: That is the eastern division.

Mr. HANSON: What weight of rails are you using?

Sir HENRY THORNTON: 100 pounds.

Mr. HANSON: I see an item \$136,000. for the Halifax hotel. How is that work progressing?

Sir HENRY THORNTON: The hotel is practically finished. It will be operating within a month or two.

Mr. HANSON: What is your estimated operating deficit of the Halifax hotel?

Sir HENRY THORNTON: You mean what we estimate.

Mr. HANSON: Yes. What are you going to lose?

Sir HENRY THORNTON: I think we will probably break even on that hotel considering the general improvement in business conditions in the Maritimes and the enterprise and courage of the people there.

Mr. HANSON: I fail to see the improvement in business conditions.

Sir HENRY THORNTON: I think things are looking up.

Mr. HANSON: I hope they are.

Sir HENRY THORNTON: Our car loadings are improving. We are showing a better result there than on any other part of the railroad.

Mr. CANTLEY: Has that been maintained during the present year?

Sir HENRY THORNTON: This is rather significant notwithstanding the general increase that we have had everywhere else on the railroad. For the week ending April 7th we had an increase of one per cent in gross, for the week ending April 14th an increase of 8 per cent.

Mr. HANSON: That is over last year?

Sir HENRY THORNTON: Yes compared with last year. The week ending April 21st an increase of nearly 10½ per cent and the week ending April 30th 3½ per cent, so that there is a marked improvement. We have had only two periods since January 1st, namely the week ending January 7th and the week ending January 31st that there was a decrease in gross earnings on the eastern lines.

Mr. CANTLEY: The movement has been chiefly agricultural products.

Sir HENRY THORNTON: I cannot tell you that, but that is probably a pretty close estimate.

Mr. BELL (St. Antoine): Why is it that the railroads are following the policy of retrenchment that you spoke of a while ago.

Sir HENRY THORNTON: Well for the very simple reason that our gross earnings have been showing a decrease this year as compared with last year, running an average of 15 per cent. They have been running from 15 to 25 per cent less than a year ago. Now when your gross income or gross revenue falls off naturally you endeavour to meet that by reducing expense.

Mr. BELL (St. Antoine): Is that caused mainly through the wheat crop in the west.

Sir HENRY THORNTON: Partly that and partly due to the general reduction in the purchasing power, due in turn to the bad break in the stock market last year.

The Committee adjourned until 4 p. m.

AFTERNOON SESSION

The committee resumed at four o'clock.

The CHAIRMAN: We are now at Exhibit G.

Mr. HANSON: Is not there more or less a standard rate of commission?

Sir HENRY THORNTON: Take two groups of bankers who are bidding on a large issue, two totally different groups, they will hit it within a fraction of one per cent of each other, and I do not believe there has been any collusion either.

Mr. HANSON: You are in a very happy position as compared with industrial companies who have to borrow money.

The CHAIRMAN: Shall the item carry?

Item agreed to.

Hon. Mr. STEVENS: Exhibit H is the cash payment on equipment. That is \$20,000,000 of equipment you are paying?

Sir HENRY THORNTON: Yes.

The CHAIRMAN: Are there any other questions on the item itself.

Item agreed to.

The CHAIRMAN: Item 324, Loan to Canadian Government Merchant Marine.

Mr. HANSON: I think we should pass over this item meantime, because I think Colonel Cantley is very much interested in it.

Sir HENRY THORNTON: I think it would be an unkind act to put this through while the Colonel is away.

The CHAIRMAN: Does the same think apply to the West Indies service?

Sir HENRY THORNTON: Yes.

The CHAIRMAN: Item 326, Maritime Freight Rates Act.

Sir HENRY THORNTON: Do you think the Colonel wants to talk about that?

Mr. HANSON: Well, this is statutory. We know what it is.

Item agreed to.

The CHAIRMAN: Item 327, amount required to provide for the payment from time to time to the Canadian National Railway Company of the deficit in receipts and revenues, occurring during the year 1930, of the eastern lines, as provided by the Maritime Freight Rates Act.

Hon. Mr. STEVENS: Those are both statutory.

Item agreed to.

The CHAIRMAN: Summary.

Mr. HANSON: We have the idea down there, Sir Henry, that if the Atlantic region went into Montreal there would not be such a bad showing.

Sir HENRY THORNTON: Well, now, you have two schools of thought. You have a certain school of thought in the maritimes that the Atlantic region ought to carry into Quebec at least, or into Montreal.

Mr. HANSON: I never thought there were two schools of thought down there.

Sir HENRY THORNTON: That is a school of thought in the maritimes. Now, then, you go into the province of Quebec, and I have had delegation after delegation, and protest after protest with respect to such a large proportion of our fine, sturdy, French-Canadian people being under the domination of Moncton.

The CHAIRMAN: Oh, no, Sir Henry, I protest very strongly on that. We belong to what you may call "No man's land" down there, and we are quite

satisfied to be administered from Moncton, but what we would like to have is a subsection that will start from Riviere du Loup taking in the Gaspé peninsula, which is composed of four hundred miles of railway at the present time, and which is exactly the number of miles you need for a subsection.

Sir HENRY THORNTON: The whole point is that it is awfully difficult to find any subdivision of territory that is going to satisfy everybody. My feeling has always been that the present Atlantic region with its headquarters at Moncton, which is as centrally located as anything can be, is as near to a satisfactory arrangement as we can get. I have no prejudices in the matter, and I really do not care a hoot except to describe those boundaries as will promote the best feeling and the most efficiency.

Mr. HANSON: I think it is more a matter of pride than anything else. They hate every year to be shown up as not earning their operating expense.

Sir HENRY THORNTON: That again is a hard thing to get away from. But even if you did include the territory which you have outlined I do not know that the position would be greatly changed. As Mr. Stevens remarks, that is something that we might leave in the lap of the gods until next year.

Mr. HANSON: Well, I am game to leave it till next year. I will take my chances.

Sir HENRY THORNTON: You can talk about it both ways, but at the same time I would like you all to feel that, as far as the maritimes are concerned, I have no prejudice. I hope some day we will be able to hit on something that will satisfy everybody.

Mr. HANSON: That will be the millenium.

The CHAIRMAN: Shall we take up the supplementary estimates for 1929-30, item 321?

Hon. Mr. STEVENS: Give us a brief explanation of why this is necessary. What was the miscalculation, if any?

Sir HENRY THORNTON: We did not at all anticipate the falling off in gross revenue which we had in the fall of last year. Nobody anticipated anything of the sort, and that just goes to show how difficult it is to estimate receipts and expenses of a railway of this sort which depends on a grain crop. We thought we were conservative, and we missed it.

Hon. Mr. STEVENS: That accounts for a couple of million.

Sir HENRY THORNTON: That accounts for the whole thing practically.

Hon. Mr. STEVENS: What about this \$4,000,000, subsection E, acquisition of stock or securities of the Grand Trunk Western. That is part of the \$6,000,000.

Sir HENRY THORNTON: Will you explain that item, Mr. Cooper?

Mr. COOPER: Just what information do you want, Mr. Stevens?

Sir HENRY THORNTON: Mr. Stevens wants to know what that item means.

Mr. COOPER: That is really the Grand Trunk Western budget for 1929. We expect to give them that amount of money to meet their 1929 requirements, and to take their securities in payment.

Hon. Mr. STEVENS: Why was not that provided for in the main estimates of last year? Why is it appearing as a supplementary for last year?

Mr. COOPER: There was an item in the budget for last year for the Grand Trunk Western. The 1929 budget was prepared as a system budget. That is, the revenues and expenditures and all requirements of the Grand Trunk Western were taken in in the 1929 budget just in the same way as the Canadian requirements were. As the result of the consolidation of the Grand Trunk Western, we thought it would be better to take it up in the budget as a purchase of their securities.

Sir HENRY THORNTON: The Grand Trunk Western properties have now been consolidated under a new financial structure. From now onwards the Grand Trunk Western will be able to finance its capital requirements without either the guarantee of the Canadian National Railways or the Canadian government. In that revised financial structure, instead of including this amount as a budget, we provide for that by certain securities to be issued by the Grand Trunk Western Railway Company which the Canadian National will purchase. Those securities will bear $4\frac{1}{2}$ per cent.

Mr. COOPER: In payment of this we were to take their common and preferred stocks.

Sir HENRY THORNTON: Yes, it was common and preferred stock instead of voting them a certain sum in the budget.

Mr. HANSON: This is an operating deficit, is it?

Sir HENRY THORNTON: No, no. It is a loan to the Grand Trunk Western in return for which we take common and preferred stock.

Mr. HANSON: For all their requirements?

Sir HENRY THORNTON: For this amount. After this year the Grand Trunk Western will do its own financing for its capital expenditure requirements.

Hon. Mr. STEVENS: Last year or the year before we authorized the proposed reconstruction of the Grand Trunk Western.

Sir HENRY THORNTON: It was the year before, I think.

Hon. Mr. STEVENS: I understood at the time that the reconstructions of their financial arrangements would take care of everything, and there was some suggestion—

Sir HENRY THORNTON: And it worked out that way.

Hon. Mr. STEVENS: That is what puzzles me, if that were done why we should be called on now to vote \$4,000,000. I cannot quite see why it should be necessary.

Sir HENRY THORNTON: Will you explain that, Mr. Cooper?

Mr. COOPER: I think the explanation would be that the application to the Interstate Commerce Commission was based on a step-up as of December, 1928, and that was all the authority we had from the commission.

Hon. Mr. STEVENS: We had that here, we had it before the committee.

Mr. COOPER: But I am speaking of the proposed consolidation that dealt with the Grand Trunk Western as of December 1928.

Hon. Mr. STEVENS: But, as I say, we had the Interstate Commerce Commission documents here. I remember the tremendously complicated long statement.

Mr. COOPER: The authority of the commission did not issue until, I think it was, in December 1929. In the meantime the Grand Trunk Western requirements had to be financed. We could not go before the commission again during 1929 and get additional authority to issue securities to take care of the 1929 requirements. We only had authority to deal with the situation down to 1928.

Hon. Mr. STEVENS: If the 1928 set-up took care of all your capital requirements there ought to be some surplus out of the main funds you realized out of the main issue to take care of that. This is not a deficit, of course.

Sir HENRY THORNTON: No, there is no deficit. Those are securities of the Grand Trunk which we are taking, really purchasing from the Grand Trunk Western to meet advances which we made to them to assist them in the interim. Ultimately those securities can be sold if we wish, and we can recoup ourselves for the money so loaned.

Hon. Mr. STEVENS: Apparently the set-up was not sufficient to take care of the capital requirements of the system.

Mr. COOPER: The set-up was sufficient, but we did not get authority from the Interstate Commerce Commission sufficient to carry on after 1928.

Hon. Mr. STEVENS: I do not want to delay the committee, but if the set-up was sufficient and certain works were required prior to the realization of that set-up, then when the set-up was put into effect you ought to have sufficient to take care of this.

Mr. COOPER: The application to the commission, as I said, was based on the situation down to 1928. They would not give us permission to issue securities in advance for 1929 requirements.

Hon. Mr. STEVENS: You may not be able to issue your bonds for six months, but when your bonds are issued you take care of any expenditures made in the interim. The point is this: that your senior securities authorized by the Interstate Commerce Commission were not sufficient to meet your requirements, and now you want some additional funds, and you are given some common stock—

Mr. COOPER: The authority of the commission covered the requirements to December, 1928. We could not ask the commission for authority to cover the 1929 requirements. We did not know what they were. They will not give us authority in advance. In the interval the Canadian National had to advance the money.

Hon. Mr. STEVENS: What about next year?

Sir HENRY THORNTON: Next year is provided for.

Hon. Mr. STEVENS: Where, Sir Henry, and how?

Sir HENRY THORNTON: From now onwards. I mean, after this is done, after this year, the Grand Trunk Western finances itself irrespective—

Hon. Mr. CRERAR: That is, after 1929.

Mr. HANSON: You will still have to go to the commission.

Sir HENRY THORNTON: Of course, we are subject to the laws of the country. The Grand Trunk Western next year will have, first of all, the interest on the bonded indebtedness—I think it is six per cent on the preferred stock—and will earn four and seven-tenths on the common stock. With an earning capacity of that sort and an operating ratio of around 71 to 72 per cent the railway can finance itself, as any private corporation does.

Mr. HANSON: But last year, 1929, you could not do it.

Sir HENRY THORNTON: Yes, we could do it, but for the reasons given we were not in a position to do it legally, and due to our inability to secure permission from the Interstate Commerce Commission we were obliged to advance some \$4,000,000, which we now get back in the form of bonds and securities.

Mr. HANSON: You have been carrying them in the interim, and now you want to get it from the government.

Sir HENRY THORNTON: Precisely.

Hon. Mr. CRERAR: And the stock or securities are deposited with the government here.

Sir HENRY THORNTON: Deposited with the government.

Hon. Mr. STEVENS: Yes, but they are junior securities.

Sir HENRY THORNTON: Yes, but they are earning their interest.

Hon. Mr. STEVENS: You do not provide in the general set-up sufficient, that is to say, you are \$4,000,000 short.

Sir HENRY THORNTON: Put it that way if you like.

Hon. Mr. STEVENS: We will say you could not do it. Next year, supposing you have four or five million dollars, or two million dollars capital expenditure to provide for, how are you going to do it?

Sir HENRY THORNTON: That will be by the sale of Grand Trunk Western bonds in the same way that a private corporation would finance its requirements.

Mr. HANSON: Your earnings are sufficiently large to allow you to do that?

Sir HENRY THORNTON: The property is earning all of its fixed charges together with six per cent interest on its preferred stock and about five per cent on its common stock.

Hon. Mr. STEVENS: Why could you not sell enough of the next issue to take care of this?

Sir HENRY THORNTON: We probably will.

Hon. Mr. STEVENS: The reason I ask that is this: When we went into this Grand Trunk Western before the understanding was that the new set-up was going to take care of the whole picture, whatever it was. I think it was \$22,000,000, or more than that. That is the reason I am querying this additional \$4,000,000.

Sir HENRY THORNTON: The total amount of money that has been put into the Grand Trunk Western is fifty-nine and a half million dollars. The fair market value of the securities which we received to-day is \$88,340,000.

Mr. HANSON: What is the form of those securities?

Sir HENRY THORNTON: \$26,000,000 in common stock, \$23,000,000 in preferred stock, \$9,650,000 in debentures, and \$29,000,000 in bonds. That represents the fair market value to-day of those securities. The preferred stock has no voting rights, so that we could dispose—we will dispose of the bonds and debentures, and we could dispose of the preferred stock and still retain control of the road through the common stock. In other words, by this arrangement that has been made we take out of the property all the money that we ever put into it, and still retain control.

Hon. Mr. STEVENS: And this year you anticipate a return of three per cent on the common stock?

Sir HENRY THORNTON: Nearly five. Wait, I made a mistake in those figures. It is about 18 per cent on the common stock.

Mr. HANSON: They ought to be able to shift for themselves.

Sir HENRY THORNTON: That is what I say. From now onwards the Grand Trunk Western will be able to very readily shift for itself.

Mr. HANSON: You regard that, then as a very profitable part of the road?

Sir HENRY THORNTON: Yes.

Mr. HANSON: What proportion of the common stock do you own?

Sir HENRY THORNTON: We own all the preferred stock and all the common stock.

Mr. HANSON: It is a subsidiary, which in the past the parent company has had to finance, and now it is in such a good earning position it will be able to do it itself.

Sir HENRY THORNTON: Yes, that is it.

Mr. HANSON: It would be a good thing if you could sell some of those securities and pay back the government some of the money.

Sir HENRY THORNTON: That is what we propose to do.

The CHAIRMAN: Shall item 321 carry?

Item agreed to.

The CHAIRMAN: Item 322.

Hon. Mr. STEVENS: That is statutory.

Mr. HANSON: I am just wondering why it is necessary to vote it each year.

The CHAIRMAN: It is provided by law.

Hon. Mr. CRERAR: It has to be voted, I understand, under the act.

The CHAIRMAN: Shall the item carry?

Item agreed to.

The CHAIRMAN: We will now take up items 324 and 325, Canadian Government Merchant Marine, page 4.

Colonel CANTLEY: We have the whole matter dealt with in this.

The CHAIRMAN: 324 deals with the Canadian Government Merchant Marine, and 325 deals with the West Indies service. We thought you might have some questions to ask, Colonel Cantley.

Colonel CANTLEY: Thank you very much. So far as the merchant marine is concerned I want to again emphasize my view in regard to the disposal of these boats. I do not need to go over the arguments I used before because I think they are well known to the members of the committee. The situation is really getting worse. The boats are getting older, and the trades in which they can profitably be employed, if any remain, are getting fewer every year. Fortunately you have disposed of several of them during the past year, and I should like to see you dispose of the whole of them, every one of them. We are committed now, in this West Indies service, to quite an expensive service. I approve of it. It is a first-class service; there is no better anywhere. It is well manned, it is well operated, and I think it will be productive of great good. Unfortunately, during certain months of the year, the passenger traffic is, and will, of necessity, be very limited, at least for some considerable time, but notwithstanding that, I am in favour of it. And when I say that I am not forgetting that we have a large commitment, about ten million dollars, and we will certainly, I fear, face annual deficits for some time, but notwithstanding all that I subscribe to it unreservedly. I want to get clear of these boats, however. You have thirty-one vessels there, and their value is decreasing every year. A resurvey must be made of them, and that is the most important reclassification that any steam vessel has, it is the critical period in their life, when larger expenditures must be made if she is to maintain her class. I do not think you can show me in the whole list of thirty-one vessels where one of them can show you a substantial profit. Possibly I am wrong; you have the accounts, I have not. I again urge on the management to get clear of these boats just as fast as they can.

Sir HENRY THORNTON: I think the thought that is probably in your mind—and you can correct me if I am wrong—is that the maintaining of the government merchant marine with sufficient implements is a desirable thing for the country.

Mr. CANTLEY: There was a time when I will admit, that is correct, but that time has gone past in my judgment.

Sir HENRY THORNTON: Is it your thought that we should dispose of our boats and go out of the marine business altogether?

Mr. CANTLEY: Yes, Sir Henry. You either have to do that, in my judgment, or reinvest an enormous amount of money on boats which are up-to-date, which these are not.

Sir HENRY THORNTON: That is quite correct, Colonel. With your general statement I am certainly in complete accord. That is, we should either equip ourselves with modern, efficient implements, or go out of business, one of the two. As Colonel Cantley says, we have been working for a good many years

with implements which were ill-adapted for the purpose. We inherited those implements. The ships were built at the time under certain circumstances which justified probably their construction, but they are not, generally speaking, economic vessels, but that question of policy is probably something which should be considered when you get the Canadian Government Merchant Marine report, so I will content myself now by saying that we should do one thing or the other. We should either decide to go on with the Canadian government marine operations, and equip the department with economic and proper tools, either one or the other. We have got to the point where probably that question ought to be decided, but it will more properly come up when you discuss the whole merchant marine situation.

Mr. CANTLEY: I thought that was what we were doing.

Sir HENRY THORNTON: I thought the chairman wanted to pass on these estimates.

The CHAIRMAN: There is item 324; also 325, 326 and 327. We left it over for Colonel Cantley in his absence. There may be some discussion on that item 325.

Mr. HANSON: Before you pass 325, is this item, the actual deficit in operation during the calendar year ending December 31st?

Sir HENRY THORNTON: Yes.

Mr. HANSON: Does that take care of the necessary depreciation?

Sir HENRY THORNTON: It takes care of all necessary charges

Mr. HANSON: All necessary charges, including depreciation. In actual operation, how did you make out?

Sir HENRY THORNTON: I will have to get that from Mr. Allen.

Mr. HANSON: That can be left until you come to it.

Sir HENRY THORNTON: I will have to hunt that out.

Item 325 agreed to.

Item 326 agreed to.

Item 327 agreed to.

The CHAIRMAN: Shall I report the resolution?

Carried

The CHAIRMAN:

BILL 130

An Act respecting the Canadian National Railways, and to provide for the refunding of certain maturing financial obligations.

His Majesty, by and with the advice and consent of the Senate and House of Commons of Canada, enacts as follows:—

1. This Act may be cited as *The Canadian National Refunding Act, 1930*.
Section carried.

2. The Governor in Council may provide for the refunding of the notes or obligations (hereinafter called "original securities") of the Canadian Northern Railway Company (hereinafter called "The Northern Company") and of the Minnesota and Manitoba Railroad Company, mentioned or described in the Schedule hereto.

Section carried.

3. Subject to the provisions of this Act, the Northern Company or, in the discretion of the Governor in Council, the Canadian National Railway Company (hereinafter called "the National Company") may issue notes, obligations, bonds, debentures or other securities (hereinafter called "substituted securities") in respect of such refunding, and the Governor in Council may authorize the

guarantee by His Majesty in the right of the Dominion of Canada, of the principal and interest of the substituted securities.

Hon. Mr. STEVENS: Now, where are these securities in your report, the ones that you are refunding?

Hon. Mr. CRERAR: The securities are at the back of the bill.

Mr. HANSON: Are they in the report?

The CHAIRMAN: They are in the bill itself, on page 4.

Sir HENRY THORNTON: They are shown on page 28 of the annual report.

Hon. Mr. STEVENS: That is what I am asking.

Sir HENRY THORNTON: They are listed under the caption of "Securities Guaranteed by the Province of Manitoba."

Hon. Mr. STEVENS: No sinking fund was ever set up for these, of course.

Sir HENRY THORNTON: No. There is one item of \$300,000 on page 29.

Hon. Mr. STEVENS: No sinking fund was ever set up by either the Canadian Northern or the Canadian National?

Sir HENRY THORNTON: No.

Hon. Mr. STEVENS: And I suppose we are not setting up sinking funds on the new issues; there is not much use.

Sir HENRY THORNTON: No, there is not much use. This is simply for refunding purposes.

Hon. Mr. STEVENS: How about the physical value of these properties now, having regard to the amount of refunding plus new issues on them, and the value of the physical property when taken over?

Sir HENRY THORNTON: You mean, what would be the value of the physical property to-day, as compared with the day of issue of the securities?

Hon. Mr. STEVENS: Plus the additional securities issued since, on these properties.

Sir HENRY THORNTON: I should say, speaking offhand, and without a searching investigation, that the properties are well worth the face value of the securities which it is intended to refund.

Hon. Mr. STEVENS: Plus any expenditures?

Sir HENRY THORNTON: Yes.

Hon. Mr. STEVENS: The assets behind are well sustained.

Sir HENRY THORNTON: Yes.

Mr. HANSON: You must have put a considerable amount of betterments in them since.

Sir HENRY THORNTON: Oh, yes, they have been materially improved, and of course, they are an integral part of the Canadian National Railway.

Hon. Mr. STEVENS: That is the sensible answer.

Sir HENRY THORNTON: That is so.

Section 3 carried.

Hon. Mr. CRERAR: Those appear to have been issued at \$10,000 a mile, that is the extent of the guarantee.

The CHAIRMAN:

The substituted securities shall not exceed the aggregate principal amount or aggregate face value of the original securities, that is, shall not exceed \$20,042,038.84.

Mr. HANSON: How do you propose to take care of the discount if you are tied down to the actual aggregate; by special vote?

Sir HENRY THORNTON: Yes, that is right.

Section 4 carried.

The CHAIRMAN:

(1) With respect to such refunding, the Governor in Council may, subject to the provisions of this Act, from time to time approve or decide—

- (a) the kind of substituted securities to be issued and guaranteed, and the form and terms thereof;
- (b) the currency or currencies in which any issue or parts thereof may be made;
- (c) the form and manner of the guarantee or guarantees;
- (d) the times, manner and amount of the issue or issues;
- (e) the method or manner of refunding, whether by exchange or substitution of the substituted securities for the original securities, or by payment of the original securities at maturity by means of the proceeds of the sale, pledge or other disposition of the substituted securities, any deficiency in such proceeds being provided by the issuing Company mentioned in paragraph (h) of this subsection;
- (f) the terms and conditions of any such exchange or substitution, or of any such sale, pledge, or other disposition of the substituted securities;
- (g) the securing, if deemed desirable, of the substituted securities by mortgage, deed of trust or other instrument, and the manner thereof, and the form and terms of any such indenture, and the trustee or trustees thereof;
- (h) which Company shall issue the substituted securities, that is, the National Company or the Northern Company, the one so selected being in this Act referred to as "the issuing Company";
- (i) the manner, terms and conditions of any temporary financing, and the expediency thereof, and the form and terms of temporary substituted securities and temporary guarantees.

(2) The guarantee or guarantees may be signed on behalf of His Majesty by the Minister of Finance or the Acting Minister of Finance, or by such other person as the Governor in Council may from time to time designate, and such signature shall be conclusive evidence for all purposes of the validity of the guarantee and that the provisions of this Act have been complied with.

Mr. HANSON: That is the standard form, leaving the whole thing to the determination of the Governor in Council.

Sir HENRY THORNTON: That is the form that has been prescribed, and followed on many occasions.

Hon. Mr. CRERAR: It seems to be the standard form.

Mr. HANSON: You have to do that when the securities are sold to the public.

Section 5 carried.

The CHAIRMAN:

The proceeds of any sale, pledge or other disposition of the substituted securities shall be deposited in the first place to the credit of the Minister of Finance and Receiver General of Canada, in trust for the issuing Company, in one or more banks designated by him, and shall from time to time be released or dealt with by the said Minister in such amounts and in such manner as shall, in the opinion of the Minister, be required to carry into effect the purposes of this Act.

Mr. HANSON: That also is the usual form of procedure; I do not know why you have to do it.

Sir HENRY THORNTON: It has been the practice, I do not know just why, but it seems to be working all right.

Section 6 carried.

The CHAIRMAN:

(1) The issuing Company shall adopt the principle of competitive bids or tenders in respect of any sale of the substituted securities, but shall not, subject to the provisions of paragraph (f) of section five of this Act, be bound to accept either the highest or lowest or any bid or tender made or obtained, nor be precluded from negotiating for better prices or terms.

(2) This section shall not apply to temporary financing in whole or in part by way of pledge or otherwise of the substituted securities, either in permanent or temporary form, where the Governor in Council approves such temporary financing and the terms thereof.

Mr. HANSON: Has this been the usual practice?

Sir HENRY THORNTON: By tender, yes.

Mr. HANSON: It is by statute, I suppose, but it seems to me that the railways should be allowed to use their best judgment.

Sir HENRY THORNTON: I think that is part of some statute or other, which was passed a few years ago, that we are obliged to call for tenders with respect to an issue of securities of that sort. We have the privilege of rejecting tenders if they are not satisfactory.

Section 7 carried.

The CHAIRMAN:

The original securities coming into the possession of the issuing Company by means of such refunding may be cancelled and cremated in the presence of a representative or representatives of the Minister of Finance and of the issuing Company, and (if desired by them) of any Trustees affected, and certificates of such cremation, signed by such representatives, shall be filed with the Minister, the issuing Company, and with the Trustees (if desired by them), and any such certificate shall be conclusive evidence for all purposes of the cancellation and cremation of the original securities covered thereby.

Hon. Mr. STEVEN: So long as you see that they are well burned.

Section 8 carried.

The CHAIRMAN:

SCHEDULE

DESCRIPTION OF ORIGINAL SECURITIES

- (a) Canadian Northern Railway Company 4 per Cent (Ontario Division) First Mortgage Debenture Bonds for £1,168,100 or \$5,684,753.33, dated September 30, 1901, and maturing June 30, 1930. These bonds are secured under mortgage dated September 30, 1901, and are guaranteed as to principal and interest by the province of Manitoba. They were issued at the rate of \$20,000 per mile in respect of the mileage between Port Arthur and Rainy River, about 290 miles, to construct the said mileage and to retire a previous issue of 4½ per Cent (Ontario Division) First Mortgage Debenture Bonds dated June 30, 1900..... \$ 5,684,753 33

- (b) Canadian Northern Railway Company 4½ per Cent (Ontario Division) First Mortgage Debenture Bonds for £12,300 or \$59,860, secured under mortgage dated July 6, 1900, the bonds being dated June 30, 1900, and maturing June 30, 1930. These bonds form part of £1,180,400 or \$4,745,586.66 of bonds issued at the rate of \$20,000 per mile. These bonds were not guaranteed by the province of Manitoba but were exchangeable for guaranteed bonds of the issue mentioned in paragraph (a); the bulk of the issue was exchanged accordingly; this item represents the balance unexchanged..... 59,860 00
- (c) Canadian Northern Railway Company 4 per Cent First Mortgage Consolidated Debenture Bonds for £2,-216,300 or \$10,785,993.31, dated June 30, 1904, and maturing June 30, 1930. These bonds are secured under mortgage dated May 30, 1904, and guaranteed as to principal and interest by the province of Manitoba. These bonds were issued at the rate of \$10,000 per mile in respect of the construction of the main and branch lines in Manitoba. A part of the issue was exchanged for underlying bonds and to procure the discharge of prior mortgages on the consolidated lines.. 10,785.993.31
- (d) Canadian Northern Railway Company First Mortgage 4 per Cent Debenture Stock for £587,671 or \$2,859,-998.87, issued under mortgage dated March 1, 1910, and maturing June 30, 1930. The stock was guaranteed as to principal and interest by the province of Manitoba and was issued at the rate of \$13,000 per mile. The proceeds of this stock were used for the construction of branch lines in Manitoba..... 2,859,998 87
- (e) Canadian Northern Railway Company 4 per Cent (Gilbert Plains Branch) First Mortgage Bonds for £500 or \$2,433.33, dated November 1, 1900, and maturing November 1, 1930. These bonds are secured under mortgage dated November 1, 1900, and are guaranteed as to principal and interest by the province of Manitoba. They form part of £44,600 or \$217,540.00 of bonds issued at the rate of \$8,000 per mile, the balance having been exchanged for 4 per Cent First Mortgage Consolidated Debenture Bonds dated June 30, 1904. The proceeds of the issue were used for the construction of about 27 miles of line from Dauphin to Grandview, Manitoba 2,433 33
- (f) Canadian Northern Railway Company First Mortgage 4½ per Cent Gold Bonds (Prince Albert Branch) dated December 31, 1903, and maturing June 30, 1930. These bonds were issued at the rate of \$10,000 per mile, and are secured under mortgage dated December 31, 1903. The bonds were not guaranteed. The proceeds were expended towards the construction of about 69 miles of the Prince Albert Branch in Saskatchewan from Erwood to a point 100 miles east of Prince Albert, Saskatchewan.. 300,000 00

- (g) Minnesota and Manitoba Railroad Company 4 per Cent First Mortgage Gold Bonds for \$349,000, dated October 1, 1900, and maturing October 1, 1930. These bonds were issued at \$8,000 per mile under mortgage dated October 1, 1900. They form part of \$352,000 of like bonds held by the province of Manitoba as collateral to an issue of \$349,000 of province of Manitoba Bonds dated October 1, 1900, maturing October 1, 1930, which were delivered to the said railway company under the provisions of chapter 43, section 2, subsection 2, of the Statutes of Manitoba, 1898. The proceeds from the sale of the province bonds were used in the construction of 43.7 miles of railway line in the state of Minnesota which is leased by the railway company to the Canadian Northern Railway Company. The \$352,000 of Minnesota and Manitoba Railroad Company's bonds were calculated on the estimated mileage of 44 miles at \$8,000 per mile and the \$349,000 of Province Manitoba Bonds were issued on the actual mileage of 43.7 miles. The railroad company's liability is therefore only to pay \$349,000 of Minnesota and Manitoba Railroad Company bonds.....

349,000 00

Total \$20,042,038 84

Schedule carried.

The CHAIRMAN: Shall I report the bill?

Carried.

The CHAIRMAN:

BILL 131

An Act respecting the Canadian National Railways, and to provide for certain financing in connection with certain lines of railway located principally in the State of Vermont.

His Majesty, by and with the advice and consent of the Senate and House of Commons of Canada, enacts as follows:—

1. This Act may be cited as The Canadian National (Central Vermont) Financing Act, 1930.

Mr. HANSON: You might give us a brief outline of what has been done with the Central Vermont. I understand it has all been reorganized.

Sir HENRY THORNTON: Yes.

Mr. HANSON: I suppose it would be impossible for this subsidiary to finance itself.

Sir HENRY THORNTON: Yes, it will. The history of the Central Vermont is this: It was acquired by the old Grand Trunk Company a good many years ago, largely for the purpose of providing an outlet for eastbound freight into New England, and westbound freight from New England. The railway, for many years was operated at a deficit. About three years ago there occurred disastrous floods in the state of Vermont, which practically wiped out a large percentage of the mileage, and cost for rehabilitation, \$2,406,000.

Mr. HANSON: You had to put up that money?

Sir HENRY THORNTON: Yes. The Grand Trunk owned, I think it was, 73 per cent of the stock. We did not see any reason why the Canadian National Railways should rehabilitate for the benefit of the minority shareholders;

accordingly the property was put into receivership. The receivers sold certificates to the extent, I think it was \$5,000,000, of which \$2,400,000 was for rehabilitation purposes, and the balance for making necessary improvements during the process of rehabilitation. That is to say, in rebuilding the railway, there were certain improvements and some alteration in line which could be done much more cheaply at that time than to have rehabilitated the railway at some subsequent date, and making those improvements. The amount that was spent in improvements was practically \$2,600,000, so, between the two, between rehabilitation and improvement undertaken, there was approximately \$5,000,000 involved. As a result of the receivership administration, and the acquisition of new equipment, heavier locomotives which were purchased under the receivership, the property was found to be an asset instead of a liability. Our original investment in that property amounted to about \$16,000,000. Actually, the original investment in the Central Vermont amounted to \$15,800,000.

Mr. McLEAN (McFort): That is the original Grand Trunk investment?

Sir HENRY THORNTON: Yes, that is it; the date we went into receivership the Grand Trunk had invested \$15,800,000. In taking the property out of receivership—

Mr. HANSON: Does that include the Southern New England?

Sir HENRY THORNTON: Yes.

Mr. HANSON: That was a subsidiary of the Central Vermont.

Sir HENRY THORNTON: That is a subsidiary of the Central Vermont. Now, that was an adventure which was undertaken by the old Grand Trunk administration, to build a railway from a point on the Central Vermont into Providence. The project was held in abeyance during the war, nothing was done with it, and when the present administration took possession of the property, it was a question whether we would go on with that, which would involve a total expenditure of fifteen or sixteen million dollars, eight or nine million dollars having already been put into it, or whether it should be abandoned. After careful consideration it was decided it would be cheaper to abandon than proceed. As a matter of fact, personally, I think it should never have been undertaken, nevertheless it was undertaken, and a considerable amount of money was spent, and about that much more money again would be required to complete it, so our officials and myself could not see any opportunity or probability of getting our money back.

Mr. HANSON: No salvage?

Sir HENRY THORNTON: There will be salvage for right of way, and that is now going on.

Mr. HANSON: There are negotiations.

Sir HENRY THORNTON: There are negotiations. The Southern New England was put into receivership for the purpose of liquidating the property in favour of the creditors, of which the Central Vermont was the principal creditor. We will probably get somewhere between one and two million dollars out of it, but the sum will by no means meet what has been put into it.

Mr. HANSON: I was down there the other day, and I read in the newspapers where it stated that a certain group or groups were said to be negotiating, not for the continuation, but for the taking over of the property.

Sir HENRY THORNTON: The people of Providence are very anxious that that railway should be completed, and they are endeavouring to organize a company to purchase the right-of-way, and complete the railway. Of course, our only object is to sell the right-of-way and get out of it. Probably this group will pay us more for the right-of-way than could be obtained in any other way. At any rate, if they are prepared to pay a satisfactory price they can have it.

Hon. Mr. CRERAR: That is the Southern New England.

Sir HENRY THORNTON: Yes.

Mr. HANSON: Excluding that, you have \$15,000,000 in it.

Hon. Mr. CRERAR: It is more than that.

Sir HENRY THORNTON: I will have to correct my figures. I said at the time it went into receivership that we had \$15,000,000 invested in the Central Vermont. That figure ought to be \$25,223,000. I think we had overlooked the amount of money that was in the Southern New England.

Hon. Mr. CRERAR: I think that is exclusive of the Southern New England, from the figures they gave me.

Sir HENRY THORNTON: That is the new organization, that is what it is now. The \$25,000,000, that is the amount of money we had invested in the property at the time it went into receivership.

Mr. HANSON: At the time of the flood.

Sir HENRY THORNTON: Just before the flood.

Hon. Mr. STEVENS: You have had it a long time, then.

Sir HENRY THORNTON: I am afraid I did not catch the significance of that.

Hon. Mr. STEVENS: You said, before the flood, and I remarked that that was a long time.

Sir HENRY THORNTON: But when the flood was over, and it came out of the receivership, it was not accompanied by the same celebration that Mr. Noah indulged in. The new financial structure provided for includes stock \$2,191,000; bonds \$12,830,000; and advances in the form of notes, \$25,768,000, that is the face value. The cost purchase price will be \$38,860,000. It is estimated this year that the railway will pay on its bonded indebtedness, all its fixed charges, and will earn about \$6.79 per share of common stock. That was its actual performance last year.

Hon. Mr. STEVENS: When you say common stock, do you mean on all the balance you have in it?

Sir HENRY THORNTON: Yes, everything.

Hon. Mr. STEVENS: Does that figure you have given us, \$38,000,000, include this \$8,600,000?

Sir HENRY THORNTON: It includes the loss on the Southern New England.

Hon. Mr. STEVENS: Yes. Does it include this \$8,600,000 we are voting in this bill?

Sir HENRY THORNTON: Yes.

Hon. Mr. STEVENS: Is it your intention to reconstruct the financial structure?

Sir HENRY THORNTON: That has been done. What is this item, Advances, \$25,000,000? What stands against that?

Mr. COOPER: That was at the date of the receivership.

Sir HENRY THORNTON: What did we get in return for that?

Mr. COOPER: We had invested at the date of receivership, \$25,223,464.75. During receivership we took up bonds which the Canadian National guaranteed, \$8,601,600. We purchased certain preferred claims, \$21,779.79. We assumed certain liabilities amounting to \$13,931.46 which was outstanding at the close of the receivership and we took up receiver's certificates, \$5,000,000, which made a total of \$38,860,776 against which we shall receive new securities to the extent of \$27,000,000, made up of common stock, \$10,000,000; 5½ per cent debentures, \$5,000,000; and 5 per cent bonds, \$12,000,000.

Hon. Mr. STEVENS: I do not get those last figures right. I make it \$54,000,000.

Mr. COOPER: \$27,000,000 is received as against our investment of \$38,000,000.

Hon. Mr. CRERAR: And that was made up of the particulars Mr. Cooper gave you.

Sir HENRY THORNTON: When I gave the total of \$40,000,000, that represents the face value of the securities which we hand over. Now we get back securities valued at \$27,000,000; in other words, we had \$38,800,000 in the property, and we got \$27,000,000 out, and the balance, the difference between \$38,000,000 and \$27,000,000, or \$11,000,000, is made up of the 2½ million dollars approximately, which was spent in improving the property, and less of about \$8,000,000 on the Southern New England, and as against that, there will be whatever salvage we get out of the Southern New England itself.

Hon. Mr. STEVENS: What are those two items, Mr. Cooper?

Mr. COOPER: I am speaking of the \$27,000,000 of new securities, which we are to receive. That is represented by \$10,000,000 of common stock, \$5,000,000 of 5½ per cent debentures, and \$12,000,000 of five per cent bonds.

Hon. Mr. STEVENS: Sir Henry, a minute ago you gave us some figures about your bonds. How much was that?

Sir HENRY THORNTON: I said that last year, on the basis of this financial statement, the railway earned its interest on its bonds.

Hon. Mr. STEVENS: Amounting to how much?

Mr. COOPER: \$875,000.

Mr. STEVENS: How many millions of bonds? You gave it a minute ago.

Mr. COOPER: \$5,000,000 debentures and \$12,000,000 bonds.

Hon. Mr. STEVENS: The question I asked a moment ago was in connection with the six per cent you said you were earning. Was that on the \$21,000,000?

Sir HENRY THORNTON: I said there is left, after the interest on the fixed charges has been met, an amount which equals \$6.79 per share dividend.

Hon. Mr. STEVENS: That is on the \$10,000,000 common stock?

Sir HENRY THORNTON: Yes.

Hon. Mr. STEVENS: Well, then, that would leave you \$11,000,000 really of dead investment.

Sir HENRY THORNTON: Yes, that is right.

Mr. McLEAN (Melfort): That has been wiped out in the reorganization.

Sir HENRY THORNTON: It is not wiped out. It has got to be charged first to the unfortunate Southern New England division, and secondly to flood destruction.

Mr. McLEAN (Melfort): Yes, you have not new stock to show for it.

Sir HENRY THORNTON: No, that is gone. That will never come back.

Mr. BELL (St. Antoine): You own all the stock now, Sir Henry.

Sir HENRY THORNTON: Yes.

Mr. BELL (St. Antoine): Originally you had 70 per cent of the stock.

Sir HENRY THORNTON: Yes. Now we own all the stock, and the railway, as I explained a moment ago, is meeting the interest on its funded debt with a margin equal to \$6.79 a year dividend on the common stock.

Hon. Mr. STEVENS: That raises this question, however: We have an item of \$11,000,000 that we put into that; it is there and it is gone.

Sir HENRY THORNTON: That is right.

Hon. Mr. STEVENS: Should not that be lifted out of that investment entirely, and written off as a dead loss, or else should you not issue yourself some common stock and aim to earn a return on it?

Sir HENRY THORNTON: It has been written off now.

Hon. Mr. STEVENS: Where does it appear?

Mr. COOPER: It was written off to profit and loss account in 1929.

Hon. Mr. STEVENS: It was not written off in your operating profits.

Mr. COOPER: It would not be written off into operating account, but it was charged to the corporate surplus account.

Hon. Mr. STEVENS: What page is that on?

Mr. COOPER: It is on page 16.

Hon. Mr. CRERAR: Prior to the receivership we had \$33,860,000 in this road exclusive of the receiver certificates?

Mr. COOPER: Yes, sir.

Hon. Mr. CRERAR: When the receivership was lifted and the road was bought in, it was bought in for \$22,000,000?

Mr. COOPER: Excluding receiver's certificates.

Hon. Mr. CRERAR: And that \$22,000,000 with the \$5,000,000 receiver's certificates gives us \$27,000,000 investment now, is that correct?

Mr. COOPER: Yes.

Hon. Mr. STEVENS: It is correct if you assume that you bought it in at \$22,000,000 from someone else, but you bought it for \$22,000,000 from yourselves, where you had paid \$33,000,000. The fact is that there is \$11,000,000 in there, which is a dead investment really. That is what you have got to keep in your mind.

Hon. Mr. CRERAR: There is no question, there is the loss you speak of.

Mr. COOPER: That loss has been dealt with. It is in account 607 on page 16. However you cannot see it. The write off on the Central Vermont was offset by a write up on the Grand Trunk Western.

Hon. Mr. STEVENS: It is only \$500,000 in the account I am looking at.

Mr. HANSON: Those were the only securities that were in the hands of the public. Now you have 100 per cent of the reorganized company.

Sir HENRY THORNTON: Absolutely.

Mr. HANSON: You paid nothing to the minority shareholders, of course?

Sir HENRY THORNTON: No, they disappeared.

Mr. HANSON: So that you put into it the rehabilitation, and changed the whole picture?

Sir HENRY THORNTON: That is right.

Mr. HANSON: And got 100 per cent of the stock?

Sir HENRY THORNTON: That is right.

Mr. HANSON: And you are assuming these refunding securities?

Sir HENRY THORNTON: That is right.

The CHAIRMAN: Shall section two carry, Power for Refunding?

The Governor in Council may provide for the raising of the money necessary to repay the temporary loans made to the Canadian National Railway Company (hereinafter called "the National Company"), as successor by amalgamation to the Grand Trunk Railway Company of Canada in respect of the retirement, pursuant to guarantee given by the Grand Trunk Railway Company of Canada, of the Five Per Cent Ten Year Refunding Mortgage Gold Bonds of the Central Vermont Railway Company, dated May 1st, 1920, to the amount of \$8,609,000.

Section agreed to.

The CHAIRMAN: Section 3, Issue of New Securities:

Subject to the provisions of this Act, the National Company may issue notes, obligations, bonds, debentures or other securities (hereinafter called "new securities") in respect of the repayment of the said temporary loans, and the Governor in Council may authorize the guarantee by His Majesty, in the right of the Dominion of Canada, of the principal and interest of the new securities.

Section agreed to.

The CHAIRMAN: Section 4, Aggregate not to exceed Central Vermont Bonds:

The new securities shall not exceed the aggregate principal amount or aggregate face value of the bonds of the Central Vermont Railway Company so retired, that is, shall not exceed \$8,609,000.

Section agreed to.

The CHAIRMAN: Section 5, Approval of Governor in Council:

(1) With respect to such repayment, the Governor in Council may, subject to the provisions of this Act, from time to time approve or decide—

- (a) the kind of new securities to be issued and guaranteed, and the form and terms thereof;
- (b) the currency or currencies in which any issue or parts thereof may be made;
- (c) the form and manner of guarantee or guarantees;
- (d) the times, manner and amount of the issue or issues;
- (e) the terms and conditions of any sale, pledge or other disposition of the new securities;
- (f) the securing, if deemed desirable, of the new securities by mortgage, deed of trust, or other instrument, and the manner thereof, and the form and terms of any such indenture, and the trustee or trustees thereof;
- (g) the manner, terms and conditions of any temporary financing, and the expediency thereof, and the form and terms of temporary new securities and temporary guarantees.

(2) The guarantee or guarantees may be signed on behalf of His Majesty by the Minister of Finance or the Acting Minister of Finance, or by such other person as the Governor in Council may from time to time designate, and such signature shall be conclusive evidence for all purposes of the validity of the guarantee and that the provisions of this Act have been complied with.

Section agreed to.

The CHAIRMAN: Section 6, Proceeds to be deposited to credit of Minister of Finance:

The proceeds of any sale, pledge or other disposition of the new securities shall be deposited in the first instance to the credit of the Minister of Finance and Receiver General of Canada (hereinafter called "the Minister"), in the trust for the National Company, in one or more banks to be designated by him, and shall from time to time be released or dealt with by him for the purpose of repaying the temporary loans mentioned in this Act, any deficiency in such proceeds being provided by the National Company.

Section agreed to.

The CHAIRMAN: Section 7, Tenders; Temporary Financing:

(1) The National Company shall adopt the principle of competitive bids or tenders in respect of any sale of the new securities, but shall not, subject to the provisions of paragraph (e) of section five of this Act, be bound to accept the highest or any bid or tender made or obtained nor be precluded from negotiating for better prices or terms.

(2) This section shall not apply to temporary financing.
Section agreed to.

The CHAIRMAN: Section 8, Disposition of Central Vermont Bonds:

(1) Concurrently with or prior to the release of the proceeds of the new securities, the National Company shall deposit with the Minister bonds of the Central Vermont Railway, Incorporated, issued under its Mortgage dated January 1st, 1930, and described as its First and General Mortgage 5% Gold Bonds, Series "A", maturing January 1st, 1960, to the par value of \$8,609,000. (hereinafter referred to as "the Vermont Bonds"). On the request of the National Company the Minister may at any time and from time to time sell the whole or any part of the Vermont bonds so deposited, the general terms and conditions of sale being, however, first approved by the Governor in Council. The proceeds of any such sale of the Vermont bonds shall be deposited to the credit of the Minister in a bank or banks approved by him, to be released by him in his discretion from time to time for the purpose of purchasing any outstanding bonds, debentures or other securities of the National Company, including the new securities, or of any company comprised in the Canadian National Railways (hereinafter called "outstanding securities") which are guaranteed as to the payment of the principal and interest by His Majesty in the right of the Dominion of Canada.

(2) The price paid at any time for any outstanding securities shall not exceed the then market price thereof.

(3) Outstanding securities so purchased shall not be reissued, but may be cancelled and cremated pursuant to the provisions of section nine of this Act.

(4) Pending sale of the Vermont bonds, the interest paid thereon by the Central Vermont Railway, Incorporated, shall be turned over by the Minister to the National Company, to be applied towards meeting interest payments on the new securities.

Section agreed to.

The CHAIRMAN: Section 9, Cancellation and Cremation of Securities:

Any outstanding securities purchased by the Minister by virtue of this Act may be cancelled and cremated in the presence of a representative or representatives of the Minister and of the National Company, and certificates of such cremation, signed by such representatives, shall be filed with the Minister and the National Company, and any such certificate shall be conclusive evidence for all purposes of the cancellation and cremation of the securities covered thereby.

Section agreed to.

The CHAIRMAN: Shall the preamble carry?

Carried.

The CHAIRMAN: Shall the title carry?

Carried.

The CHAIRMAN: Shall I report the bill?

Carried.

The CHAIRMAN: Shall we go on with the operating accounts as we did last year, item by item, in the main report of the Canadian National Railways?

Mr. McLEAN (Melfort): That is the usual procedure.

Hon. Mr. CRERAR: I think an examination of this income and expenditure statement will eliminate the balance sheet when we come to a consideration of this.

The CHAIRMAN: Then, page 17, Income Statement, item 501, Railway operating revenues.

Mr. HANSON: Sir Henry, would you care to make an estimate for the current year of your revenues, or do you not care to do so?

Sir HENRY THORNTON: We have already made it, and it is reflected in the budget. This, you understand, is for Canadian lines only, \$222,000,000.

Mr. HANSON: The income statement we are dealing with is for the whole system?

Sir HENRY THORNTON: Yes, it is. The estimate for the system shows \$269,-000,000 operating revenues and \$218,000,000 operating expenses.

Mr. BELL (St. Antoine): The total estimates are only \$222,000,000.

Sir HENRY THORNTON: This is only for Canadian lines. Mr. Hanson asked the question as to the gross expenses for the whole system.

Hon. Mr. STEVENS: On page 17, \$259,000,000, Railway operating revenues. That does not include the Grand Trunk Western?

Sir HENRY THORNTON: Yes, it does.

Hon. Mr. STEVENS: Does it include the Central Vermont?

Sir HENRY THORNTON: The Central Vermont was not out of receivership so that is not included.

Hon. Mr. STEVENS: The \$269,000,000 does include the whole system now?

Sir HENRY THORNTON: Yes.

Mr. McLEAN (Melfort): The difference between those two figures is the total revenue drop.

Sir HENRY THORNTON: A decrease of \$16,700,000. That is the decrease in gross revenue.

Mr. McLEAN (Melfort): On all the system?

Sir HENRY THORNTON: Yes, except the Central Vermont.

The CHAIRMAN: Shall the item carry?

Item agreed to.

The CHAIRMAN: 531, Railway Operating Expenses and net revenue from railway operations.

Item agreed to.

The CHAIRMAN: 532, Railway tax accruals.

Mr. HANSON: I suppose that tax business is a constantly increasing item.

Sir HENRY THORNTON: Well, one never knew taxes to decrease.

Item agreed to.

The CHAIRMAN: 533, Uncollectible Railway Revenues.

Item agreed to.

The CHAIRMAN: 502, Revenues from Miscellaneous Operations.

Item agreed to.

The CHAIRMAN: 534, Expenses of Miscellaneous Operations.

Item agreed to.

The CHAIRMAN: 535, Taxes on Miscellaneous Operating Property.

Item agreed to.

The CHAIRMAN: 504, Rent from Locomotives.

Item agreed to.

The CHAIRMAN: 505, Rent from Passenger Train Cars.

Item agreed to.

The CHAIRMAN: 506, Rent from Floating Equipment.

Item agreed to.

The CHAIRMAN: 507, Rent from work equipment.

Item agreed to.

The CHAIRMAN: 508, Joint Facility Rent Income.

Item agreed to.

The CHAIRMAN: 509, Income from lease of road.

Item agreed to.

The CHAIRMAN: 510, Miscellaneous Rent Income.

Item agreed to.

The CHAIRMAN: 511, Miscellaneous non-operating physical property.

Item agreed to.

The CHAIRMAN: 512, Separately operated properties—Profit.

Item agreed to.

The CHAIRMAN: 513, Dividend Income.

Item agreed to.

The CHAIRMAN: 514, Income from funded securities.

Item agreed to.

The CHAIRMAN: 515, Income from unfunded securities and accounts.

Item agreed to.

The CHAIRMAN: 516, Income from sinking and other reserve funds.

Item agreed to.

The CHAIRMAN: 519, Miscellaneous Income.

Item agreed to.

The CHAIRMAN: 536, Hire of freight cars—Debit balance.

Item agreed to.

The CHAIRMAN: 537, Rent for locomotives.

Item agreed to.

The CHAIRMAN: 538, Rent for passenger train cars.

Item agreed to.

The CHAIRMAN: 539, Rent for floating equipment.

Item agreed to.

The CHAIRMAN: 540, Rent for work equipment.

Item agreed to.

The CHAIRMAN: 541, Joint Facility Rents.

Item agreed to.

The CHAIRMAN: 542, Rent for leased roads. Item agreed to.

The CHAIRMAN: 543, Miscellaneous rents. Item agreed to.

The CHAIRMAN: 544, Miscellaneous tax accruals. Item agreed to.

The CHAIRMAN: 545, Separately operated properties—Loss. Item agreed to.

The CHAIRMAN: 546, Interest on funded debt. Item agreed to.

Mr. HANSON: Just what is 545?

Sir HENRY THORNTON: It is the Montreal and Southern Counties Railway, the Oshawa Railway, the Thousand Island Railway, the Montreal stockyards, the Montreal Freight and Terminal Company, our proportion of the loss of six months' operation on the Northern Alberta Railways—

Mr. HANSON: Are these companies that you operate and do not own?

Sir HENRY THORNTON: We own them, but they are miscellaneous properties; they are not railway properties.

Mr. HANSON: They are not in the system.

Sir HENRY THORNTON: For instance, the Montreal and Southern Counties Railway is a tram line which runs from Montreal on the southern side of the river.

Mr. STEVENS: The Montreal Freight Terminals, is that the one we were discussing before? Is not there an item in here of half a million dollars for expenditure on that? I think I saw one here somewhere.

Sir HENRY THORNTON: There is an item in the budget for it, I expect.

Hon. Mr. STEVENS: What is the idea of continuing that?

Sir HENRY THORNTON: Well, that was a fruit and produce terminal that was organized for the purpose of handling fruit and vegetables in Montreal. It has been in operation for two months, and we expect that to improve.

Mr. HANSON: Is that in connection with the West Indies line?

Sir HENRY THORNTON: Yes.

Mr. HANSON: In other words, you had to organize a marketing centre there?

Sir HENRY THORNTON: Yes.

Mr. HANSON: And the railway had to do that?

Sir HENRY THORNTON: There seemed to be so much conflict and fighting amongst the produce people that someone had to take hold of the thing, and we did.

Hon. Mr. STEVENS: And you are organizing one in Regina too, are you not?

Sir HENRY THORNTON: I do not think so.

Mr. BURNAP: I think not.

Hon. Mr. STEVENS: Building of new freight house, Regina, extension to warehouse in Winnipeg.

Sir HENRY THORNTON: That is in connection with our own facilities.

Hon. Mr. STEVENS: \$185,000.

Sir HENRY THORNTON: That is our own entirely. That is in connection with the handling of fruit and vegetables.

Mr. McLEAN (Melfort): Would that be storage as well as handling?

Sir HENRY THORNTON: There is some storage space in it.

Mr. GEARY: Have you provided similar facilities in Toronto?

Sir HENRY THORNTON: Yes, we have a warehouse there.

Mr. GEARY: I mean a fruit market.

Sir HENRY THORNTON: No, we do not own a fruit market in Toronto. Offhand, I do not know just what they do in Toronto about marketing fruit.

Mr. GEARY: You have a team track and sidings, I think, but you have no building. They use your old station there.

Mr. SMART: They rent part of it.

An hon. MEMBER: The stuff is not brought in on consignment, is it?

Sir HENRY THORNTON: That is right.

An hon. MEMBER: They are shipped in and auctioned.

Sir HENRY THORNTON: That is right.

Mr. HANSON: They compete with the United Fruit, a great institution, no doubt about it, and your competition is pretty keen.

Sir HENRY THORNTON: Very keen.

Mr. BELL (St. Antoine): The Terminal Warehousing Company Limited, in Exhibit F, subsidiary companies' estimated capital expenditures.

Sir HENRY THORNTON: I think that is an extension to the Montreal warehouse.

Hon. Mr. STEVENS: The Terminal Warehousing Company Limited, I think you are interested in it.

Sir HENRY THORNTON: That is a warehouse that we built in Montreal, an additional warehouse.

Mr. BELL (St. Antoine): It has nothing to do with fruit and vegetables.

Sir HENRY THORNTON: No.

Mr. HANSON: Item 546, that was the funded debt held by the public up to the end of 1929?

Sir HENRY THORNTON: That is right.

Hon. Mr. STEVENS: Now it will be \$50,000,000 next year under your estimate.

Sir HENRY THORNTON: Yes.

The CHAIRMAN: Item 546A, Interest on Dominion government advances.

Mr. HANSON: That is a perennial subject. How are you getting along with your scheme of reorganization, or what are you doing? Perhaps you do not want to talk about it?

Sir HENRY THORNTON: I am perfectly willing. We have made our recommendations and reports. I think it is in the hands of the government. Perhaps Mr. Crerar might like to answer that question.

Hon. Mr. STEVENS: When is the minister going to bring them down?

Hon. Mr. CRERAR: Not the financial reorganization this year.

Hon. Mr. STEVENS: Why?

Hon. Mr. CRERAR: We had proposed to bring in a bill for the amalgamation of those various roads. Notice, I think, was given in the Speech from the Throne, but we did not make any progress with the legislation before the Easter adjournment, and I think it is very doubtful now whether that measure will be brought in.

Mr. HANSON: The Prime Minister said there would be nothing of that sort.

Hon. Mr. CRERAR: Yes, that is in view of the pending dissolution of parliament.

Hon. Mr. STEVENS: It is a big job.

Hon. Mr. CRERAR: Yes, it is a big job. Of course, I must confess frankly, Mr. Chairman, that I came in here about the middle of February, at the commencement of the session, and I have not been able to get a clear idea of what is involved in the financial reorganization beyond this, that I know it is a very immense task. But the amalgamation should be proceeded with by parliament. I doubt, however, if it can be done now at this session, but it certainly should be proceeded with at the next session, and I should like to see some serious study made of the whole reorganization of the financial structure of the railways, with a view to securing definite legislation.

Sir HENRY THORNTON: Of course, the investigation has taken place as far as the railway is concerned, and we have our recommendations ready. But, as the minister says, he has not had an opportunity of going fully into all of the ramifications of an exceedingly complicated problem. However, all the investigating work has been done. It is merely a question of determining what policy the government wishes to pursue.

Mr. GEARY: Is that a complete plan with regard to the whole structure financially?

Sir HENRY THORNTON: Yes.

Mr. GEARY: You are through with it?

Sir HENRY THORNTON: We are done as far as the railway is concerned.

Mr. GEARY: Are we?

Sir HENRY THORNTON: No, your work just starts.

Mr. BELL (St. Antoine): When was that submitted, Sir Henry?

Sir HENRY THORNTON: One might say, roughly, this year.

Hon. Mr. STEVENS: The first of the year.

Mr. HANSON: There is one observation I want to make in regard to it, and it is this: That in any reorganization of the financial structure of the Canadian National Railways, the greatest care should be taken, because there will be an immediate demand for a reduction in freight rates from our friends in the west.

Sir HENRY THORNTON: I quite get your point, but let me say this: I should dislike to undertake to support higher freight rates by a fictitious financial showing, and I should equally dislike to discourage the payment of fair wages to our employees by a similarly fictitious financial showing, but happily it has developed that the financial structure which will be eventually presented is not only sound in character and justifiable in every point of view, but avoids the two contingencies to which you have referred.

Mr. HANSON: A perfect scheme, in other words.

Hon. Mr. STEVENS: You and your staff have given this your study for the last two years.

Sir HENRY THORNTON: This has been given intensive study for six years.

Hon. Mr. STEVENS: Particularly the last two years.

Sir HENRY THORNTON: Super-intensive.

Hon. Mr. STEVENS: Under actual preparation.

Sir HENRY THORNTON: Yes. I do not suppose there ever was a more complicated and difficult task undertaken, largely because of the chaotic state of the records of the preceding companies; the large number of mortgages involved; the different kinds of securities, all having different terms; different dates of maturity; different rates of interest, and covering different parts of the railway, but finally that has all been catalogued and at the pleasure of the government and of parliament, we are prepared to go ahead with the financial reconstruction whenever it is thought proper.

Hon. Mr. STEVENS: Here is another point: In 1934 the Minister of Finance will be faced with \$900,000,000 war loans maturing; it would be very inconvenient to have a huge reconstruction program, and new issues, for instance, of Canadian National securities sufficient to take care of all these various outstanding securities, and the national refinancing at the same time, or within a year or two of one another.

Sir HENRY THORNTON: Yes; that is all the more reason for speed.

Hon. Mr. STEVENS: Therefore this railway financing should be pushed along as soon as possible.

Sir HENRY THORNTON: Yes.

Mr. HANSON: Does the reconstruction of the financial structure involve necessarily the entire refinancing?

Sir HENRY THORNTON: Oh, no.

Mr. HANSON: Because many of these issues are not maturing.

Sir HENRY THORNTON: We have some perpetuums, for instance.

Mr. HANSON: Yes.

Sir HENRY THORNTON: We do not disturb any of the existing issues. If they are running along all right, we will leave them alone.

Mr. GEARY: Are these advances representing interest on Dominion Government issues carried in our balance as non-active assets?

Sir HENRY THORNTON: Non-active assets.

Mr. GEARY: But they do represent funded debt of the Dominion.

Sir HENRY THORNTON: I suppose so; I cannot answer that.

Mr. GEARY: You are not worrying about those.

Sir HENRY THORNTON: No.

The CHAIRMAN: Item 548, Amortization.

Mr. HANSON: Interest on fund, is that what you pay the banks?

Sir HENRY THORNTON: What is paid the banks and the Minister of Finance on the temporary borrowing.

Mr. HANSON: What rate do you have to pay the banks?

Mr. GRANT: Five per cent. According to market conditions. We are paying for refunding the Central Vermont $4\frac{3}{4}$ per cent.

Sir HENRY THORNTON: What is the lowest rate that we got?

Mr. GRANT: Four and a half per cent. It depends pretty much on the condition of the market.

Mr. HANSON: And depends upon the amount of the loan.

Mr. GEARY: What is your funded debt?

Sir HENRY THORNTON: For instance, last year, you will remember when financial conditions were discussed by this committee, there was a considerable amount of financing to be done. Some of it was temporary, and we had to do it temporarily on account of the condition of the money market, and some we got rid of as the year went by. The unfunded debt is taking care of the temporary loans until such time as they can be translated into permanent loans.

Mr. GEARY: The item, \$12,640,000.

Sir HENRY THORNTON: You asked what it was; I said generally it was a thing of that sort.

Hon. Mr. STEVENS: You had unfunded debt, \$44,000,000.

Sir HENRY THORNTON: Yes.

Mr. HANSON: You obtained that by temporary loans because you could not sell the bonds.

Mr. CANTLEY: The time was not opportune.

Sir HENRY THORNTON: No.

Mr. GEARY: Is that represented by bank advances?

Sir HENRY THORNTON: Largely; I guess, entirely.

Mr. COOPER: Is that the \$44,000,000?

Hon. Mr. STEVENS: This interest item 547; what is that?

Mr. COOPER: It is on the loans from the banks and on loans from the government. At December 31st, the loans from the Minister were \$32,601,000.

Mr. GEARY: You must have run back a long distance; it was only \$29,000,000 the last time.

Mr. COOPER: \$24,000,000 in 1929, and we owed then the \$8,601,600 for the Central Vermont bonds.

Mr. GEARY: You got that from the government. That does not show in the balance sheet; all that is shown in the government balance is \$10,000,000 in 1927.

Mr. COOPER: Of course I am speaking of the condition as at December 31st. Since December 31st the loan to the Minister was repaid. The amount for C.V. bonds was borrowed from the Bank.

Mr. GEARY: How much is that?

Mr. COOPER: \$8,601,600.

Mr. HANSON: That is the Central Vermont.

Mr. COOPER: Yes, sir.

Mr. HANSON: As I understand it, this item 547 is the interest that you paid on your temporary loans, whether the government or the bank.

Sir HENRY THORNTON: Yes, that is right.

Mr. HANSON: They are short-term loans.

Mr. GEARY: They are not short-term loans from the government, are they?

Mr. COOPER: We call it short term debt, they are more demand loans.

Mr. GEARY: But they have been running for years.

Mr. COOPER: No, sir.

Mr. GEARY: What about the \$10,000,000 that I referred to a moment ago?

Mr. COOPER: That is in the long-term loans; that is not a short-term loan.

Mr. GEARY: It is not in this item.

Mr. COOPER: No, sir. The interest on the loans from the government, which amounts to some six hundred million dollars, is included in item 546A.

Mr. HANSON: In other words, you use the government as a banker occasionally?

Mr. COOPER: Temporarily.

Sir HENRY THORNTON: Sometimes the government is very glad to let us have a certain amount at the going rate.

Mr. HANSON: They charge you interest?

Sir HENRY THORNTON: Oh, yes.

Mr. GEARY: There has been a distinction drawn between the advances that were made by the government and advances to the railways for outside subsidiaries.

Sir HENRY THORNTON: That is right.

Mr. GEARY: That amounts to many hundreds of millions of dollars.

Sir HENRY THORNTON: That is right.

Mr. GEARY: They were advanced to the company during the reorganization period, and treated as non-active assets.

Sir HENRY THORNTON: That is right.

Mr. GEARY: And some complaint was made that they should have been paid for on the spot.

Sir HENRY THORNTON: Yes.

Mr. GEARY: Because they were issued to a non-going concern, but since that period, during the years 1925 and 1926, in each of those years there was \$10,000,000 advanced. Did that take the place of an ordinary government advance, and take its place with the other government advances made years ago?

Mr. COOPER: Yes.

Mr. GEARY: We have never understood that in the House.

Mr. COOPER: They are shown in schedule "K" in the Public Accounts. They are under the heading "Loans to Canadian National Railways".

Mr. GEARY: If you ever wipe out the government advances, and cancel the interest, those will be wiped out with it.

Sir HENRY THORNTON: That will certainly have to be given consideration.

Mr. STEVENS: What I think Mr. Geary is a little off on is this: Under the present system the government makes no further loans in cash to the railway. They do that by re-issues, and the government issues guarantees. In other words, cash loans were abandoned four or five years ago.

Sir HENRY THORNTON: In 1925 or 1926.

Hon. Mr. STEVENS: But this loan that Mr. Cooper is speaking about, is a loan secured from the bank, for \$40,000,000. They did not sell the bonds because the time was inopportune, and they borrowed the \$40,000,000 to the end of the year, which they paid out of the \$60,000,000 issue made to the public since that time.

Mr. GEARY: I remember that, because there were two successive years in which there were \$10,000,000 which you got on the same basis as the Union Government gave.

Sir HENRY THORNTON: Yes.

Mr. GEARY: We never understood it that way.

Sir HENRY THORNTON: That is correct.

Mr. COOPER: But Mr. Stevens was not quite correct in saying that cash loans are abandoned. I think it is the intention of the government to give cash loans to the extent to which we might have a deficit.

Hon. Mr. STEVENS: You do not show cash loans the last two or three years.

Mr. COOPER: There will be some at March, 1930.

Mr. STEVENS: And the interest on that will be included in 546A?

Mr. COOPER: Yes, sir.

Sir HENRY THORNTON: Interest on government advances.

Mr. McLEAN (Melfort): The interest on unfunded debt, borrowed from the government, is always refunded in cash?

Mr. COOPER: That is the distinction between 546A and 547. 546A is not paid in cash; 547 is paid in cash.

Mr. McLEAN (Melfort): 546A is charged in the account with the government, and afterwards charged as assets as far as the government is concerned.

Item 548 carried.

The CHAIRMAN: Item 551, Miscellaneous Income Charges.

Mr. HANSON: Item 548, Amortization of Discount on Funded Debt. You are carrying that so much each year, are you? The discount, you pay so much each year.

Sir HENRY THORNTON: What is that, Mr. Cooper? It is a bookkeeping charge, I think.

Mr. COOPER: The discount on new issues is charged to Balance Sheet account 725, and amortized to Income Account over the life of the security.

Mr. HANSON: That is the standard method.

Mr. COOPER: Yes.

Hon. Mr. STEVENS: Yes, but it is not paid. You do not want to run away with the idea that it is paid, any more than that the \$32,000,000 is paid.

Mr. COOPER: There is no one to pay it to.

Mr. HANSON: It is a bookkeeping entry, and paid when you sell the securities out of the lump sum included in the government vote.

Mr. COOPER: I would say it is paid when the securities mature. We pay them off at par.

Mr. HANSON: You pay them at par, of course.

Mr. GEARY: I suppose, if that item runs for many years, you will continue to amortize that account.

Mr. COOPER: Yes. Some of the securities issued in 1929 were for forty years.

Mr. GEARY: Were they all issued at a discount?

Mr. COOPER: In 1929, yes.

Mr. GEARY: And a good many previously issued.

Mr. COOPER: I think, generally speaking, there would always be a discount to equalize the flat rate of the bond with the market price.

The committee adjourned until 11 a.m., Thursday, May 15.

SESSION 1930

HOUSE OF COMMONS

SELECT STANDING COMMITTEE

ON

RAILWAYS AND SHIPPING

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 3—THURSDAY, MAY 15, 1930

WITNESSES:

Sir Henry Worth Thornton, K.B.E., President and Chairman of the Board of Directors; S. J. Hungerford, Vice-President; W. D. Robb, Vice-President; S. W. Fairweather, Director, Bureau of Economics; Mr. A. H. Allan, Assistant General Manager, Canadian Government Merchant Marine, Limited; Mr. J. P. Doherty, Freight Traffic Manager, Canadian Government Merchant Marine, Limited; T. H. Cooper, General Auditor.

OTTAWA
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1930

REPORTS OF THE COMMITTEE

MAY 15, 1930.

The Select Standing Committee on Railways and Shipping owned, operated and controlled by the Government beg leave to present the following as a

SECOND REPORT

Your Committee have considered the following Bills and have agreed to report them without amendment, viz:

Bill No. 130. An Act respecting the Canadian National Railways, and to provide for the refunding of certain maturing financial obligations.

Bill No. 131. An Act respecting the Canadian National Railways, and to provide for certain financing in connection with certain lines of railway located principally in the State of Vermont.

Your Committee have also considered the following Estimates, and have agreed to recommend that they be adopted by the House, viz:

1. Further Supplementary Estimates, 1929-30. Railways and Maritime Freight Rates Act. Items 321, 322. \$6,638,030.23.

2. Estimates, 1930-31. Railways, Canadian National Steamships and Maritime Freight Rates Act. Items 323, 324, 325, 326, 327. \$61,070,000.

All of which is respectfully submitted.

EUGENE Fiset,
Chairman.

MINUTES OF PROCEEDINGS

ROOM 231, HOUSE OF COMMONS,
THURSDAY, May 15, 1930.

The Select Standing Committee on Railways and Shipping owned, operated and controlled by the Government, met at 11 a.m. Sir Eugene Fiset, the Chairman, presided.

Members present: Messrs. Bell (St. Antoine), Cantley, Chaplin, Crerar, Fiset (Sir Eugene), Geary, Hanson, Jenkins, Power.

In attendance: Sir Henry Thornton and other officials of the Canadian National Railways Company. Mr. Smart, Deputy Minister of Railways and Canals. Mr. Anderson, Department of Railways and Canals.

Consideration was resumed of the Annual Report of the Canadian National Railway System for the year ended December 31, 1929, the following items being reviewed, viz:

1. Consolidated Balance Sheet at December 31, 1929. (Pages 14 and 15 of the Report).
2. Profit and Loss Account, 1929. (Page 16 of the Report).
3. Railway Operating Expenses. (Page 22 of the Report).
4. Eastern Lines:—
 - (a) Income Statement. (Page 43 of the Report).
 - (b) Profit and Loss Account. (Page 43 of the Report).
 - (c) Railway Operating Revenues and Expenses. (Page 44 of the Report).

By permission of the Committee, Hon. Mr. Black (Halifax), M.P., was allowed to ask some questions.

The Committee adjourned at 1 p.m., until 4 p.m.

The Committee reassembled at 4 p.m.

Members present: Messrs. Bell (St. Antoine), Cantley, Crerar, Fiset (Sir Eugene), Geary, Gray, Jenkins, McLean (Melfort), Milne, Power, Stevens.

The Annual Report of the Canadian National Railway System for 1929 was again before the Committee, and the Eastern Lines Railway Operating Revenues and Expenses, as shown on page 44 of the Report, were reviewed.

The Eleventh Annual Report of the Canadian Government Merchant Marine, Limited, was next taken under consideration, the Consolidated Balance Sheet at 31st December, 1929 (pages 6 and 7 of the Report), and the Operating Account (page 8 of the Report), being examined.

The First Annual Report of Canadian National (West Indies) Steamships, Limited (bound with the Eleventh Annual Report of the Canadian Government Merchant Marine, Limited) was discussed as regards the Consolidated Balance Sheet at 31st December, 1929, as per pages 18 and 19.

On motion of Mr. Stevens, the following Reports were adopted:

1. Annual Report of the Canadian National Railway System.
2. Eleventh Annual Report of the Canadian Government Merchant Marine, Limited.
3. First Annual Report of the Canadian National (West Indies) Steamships, Limited.

The Committee adjourned.

JOHN T. DUN,
Clerk of the Committee.

MINUTES OF EVIDENCE

ROOM 231, HOUSE OF COMMONS,
THURSDAY, MAY 15, 1930.

The Select Standing Committee on Railways and Shipping met at 11 o'clock a.m., the Chairman, Sir Eugène Fiset, in the Chair.

Sir HENRY THORNTON: I will ask Mr. Cooper if he will read the balance sheet and answer any questions in respect thereto.

The CHAIRMAN: Is it agreeable that we proceed with the balance sheet. We may avoid the details if we go on with that now.

Mr. COOPER: Item 701, investment in road and equipment.

Mr. GEARY: You have never arrived at that by an inventory; that is a book cost, is it?

Sir HENRY THORNTON: Yes.

Mr. GEARY: Stretched right from the beginning of each individual road.

Mr. HANSON: That is what the auditors say in their certificate.

Mr. GEARY: From the very commencement of each road.

Mr. COOPER: Yes, the historical book cost. Account 702, Improvements on Leased Railway properties; 703, Sinking Fund.

Mr. HANSON: You have established then some system of sinking funds, Sir Henry.

Mr. COOPER: Those sinking funds are in connection with securities which were issued prior to consolidation.

Mr. HANSON: And which require sinking funds under the terms of the Trust Deeds.

Mr. COOPER: Exactly.

Mr. HANSON: But no system of debt retirements has ever been set up at all.

Mr. COOPER: No.

Sir HENRY THORNTON: No general debt retirement.

Mr. COOPER: Account 704, Deposits in lieu of Mortgage Property Sold.

Mr. HANSON: Just what does that mean.

Mr. COOPER: Under the terms of certain trust deeds, if property subject to mortgage is sold the proceeds must be deposited with the trustee until there has been substitution. Account 705, Miscellaneous Physical Property.

Mr. GEARY: What does that consist of?

Mr. COOPER: Miscellaneous Physical Property is non-transportation property. Account 701 is transportation property.

Mr. GEARY: That is hotels and all that sort of thing.

Mr. COOPER: Yes, sir. Account 706, Investments in Affiliated Companies.

Mr. HANSON: Is that actual cash investment?

Mr. COOPER: That is the book value of our security holdings in companies with which we are affiliated.

Mr. GEARY: At cost to you?

Mr. COOPER: Generally speaking, the details of that are shown on page 36.

Mr. HANSON: Are the hotels held by affiliated companies, or under 705?

Mr. COOPER: Such as the Admiral Beattie hotel or our own hotels?

Mr. HANSON: That would be other investments, I suppose.

Mr. COOPER: Our own hotels are included in Account 705. Our investment in hotels such as the Admiral Beattie would be in Account 707.

Mr. BELL (*St. Antoine*): When you are speaking of affiliated companies does that take in the Central Vermont.

Mr. COOPER: The Central Vermont is included in this balance sheet as an affiliated company.

Sir HENRY THORNTON: The detail of that is on page 36.

Mr. GEARY: That, of course, does not represent the market value of the securities to-day.

Mr. COOPER: No, but the book value is less than market value.

Mr. GEARY: Is it?

Mr. COOPER: Yes. Take the Shore Line stock, \$714,000. I think it will be safe to say that stock is worth not less than \$3,000,000.

Mr. HANSON: Which company is that?

Mr. COOPER: The Detroit and Toledo Shore Line.

Mr. GEARY: That is better than the railway business.

Sir HENRY THORNTON: It is a form of railway business.

Mr. COOPER: That company has paid us 34 per cent per annum in dividends for several years running.

Sir HENRY THORNTON: The same thing is relatively true of the Ontario Car Ferry, and a number of other companies, also the Belt Line Railway in Chicago. All of those properties are worth a good deal more than at the time we acquired our interest.

Mr. GEARY: How did you acquire the interest?

Sir HENRY THORNTON: In the Chicago Belt Line?

Mr. GEARY: Yes.

Sir HENRY THORNTON: Through the old Grand Trunk. That was part of their property, part of their investment and of course, when the Government took over the Grand Trunk it succeeded to all of the interests of the Grand Trunk.

Mr. GEARY: There is no good in holding that \$240,000 in the Chicago Belt Line Railway except that it is a good investment.

Sir HENRY THORNTON: We use the Belt Line for transportation purposes along with the other railways in Chicago. The railways owned by a certain number of railways; it is a terminal Belt Line Railway.

Mr. GEARY: And you acquire and hold the part there, do you?

Mr. BELL (*St. Antoine*): Where does the Hudson Bay Railway come in?

Sir HENRY THORNTON: That is in the Government account. We are acting as agents for the government.

Mr. COOPER: Account 708, Cash; Account 711, Special Deposits.

Mr. HANSON: That is, cash on hand and in banks.

Mr. COOPER: It is money deposited in the banks to the credit of the Minister. It is the unexpended proceeds of our financing in 1929.

Mr. HANSON: Under the terms of the legislation which requires it to be put there—

Mr. COOPER: It is only released to the railway company on the certificate of the Minister.

Account 713, Traffic and Car-Service Balances Receivable; 714, Net Balances Receivable from Agents and Conductors; 715, Miscellaneous Accounts Receivable.

Mr. HANSON: That seems large. Is that outstanding freight accounts?

Mr. COOPER: No, the freight accounts are in 713.

Hon. Mr. CHAPLIN: 714 and 715 seem to be pretty large.

Sir HENRY THORNTON: Account 714 runs about that amount from year to year. It is constantly coming in. You have got to make a cut-off at mid-night December 31.

Mr. GEARY: I suppose you can take that day by day, can you, or is it a monthly account? It is rather fine accounting, is it not, to find out what is in the hands of every conductor?

Mr. COOPER: He turns in his receipts day by day at the completion of his run. Both Accounts 714 and Account 715 show decreases of \$700,000 or \$800,000 during the year.

Mr. GEARY: It is not the exact amount, is it?

Sir HENRY THORNTON: He renders an exact account.

Mr. COOPER: Account 716, material and supplies.

Mr. HANSON: Is that a fairly constant item?

Sir HENRY THORNTON: That is a decreasing item.

Mr. VAUGHAN: It increased solely on account of a carry-over in ties.

Sir HENRY THORNTON: The object of every railway company is to reduce as far as possible its materials and supplies, and the purchasing department has for several years past been conducting a vigorous campaign in that direction. This year in order to increase the carry-over on ties in order that we might be sure of ties promptly on hand for work in the spring, this has increased, but it will decrease quite substantially next year.

Mr. COOPER: Account 717, interest and dividends receivable; Account 718, rents receivable; Account 719, other current assets; Account 720, working fund advances; Account 721, insurance and other funds; Account 722, other deferred assets.

Mr. HANSON: Account 721 is your insurance reserve.

Sir HENRY THORNTON: No, that will be found on the opposite page under 773.

Mr. HANSON: Oh, yes.

Mr. COOPER: Account 721 is the investment of the reserve.

Account 723, rents and insurance premiums paid in advance; Account 724, discount on capital stock; Account 725, discount on funded debt; Account 727, other unadjusted debits.

Mr. HANSON: Account 725. You cannot carry that as an asset until you wipe it out in your amortization plant. It is a very illusive thing. It is not a true asset, of course, but that is the way the accountants do it.

Mr. COOPER: We show it as an unadjusted debit, Mr. Hanson. It is on the debit side of the balance sheet.

Mr. GEARY: It must be; it could not be anywhere else.

Mr. COOPER: It is a potential charge to profit and loss.

Account 751, capital stock.

Mr. GEARY: How much working capital do you require to run this road? I do not think you show that as an item, do you?

Mr. COOPER: You would have to take out the special deposit account, \$47,000,000, which would leave you a net of \$81,000,000.

Sir HENRY THORNTON: Colonel Geary was asking, in a general way, how much working capital we thought it necessary to have on hand.

Mr. COOPER: I would say \$80,000,000, sir, \$42,000,000 would be represented by material stocks—

Mr. GEARY: You cannot use as working capital a special deposit, because that is not even a drawing account.

Mr. HANSON: Ordinarily your net working capital would be the difference between your current assets and your current liabilities.

Mr. COOPER: Yes.

Mr. HANSON: And it runs about \$80,000,000.

Mr. COOPER: No, not net; that was the working capital. You would have to deduct the current liabilities from that, and the current liabilities would be \$92,000,000 less \$44,000,000, which is \$48,000,000, so we would have working capital assets of \$80,000,000, and liabilities of around \$50,000,000.

Mr. CANTLEY: Put it this way: You ask the government to open a credit account with bankers to enable you to operate the road from month to month. How much would you require to put in that fund?

Sir HENRY THORNTON: I think Mr. Cooper has just given you the answer to that. It would take around \$80,000,000, would it not?

Mr. COOPER: Yes, sir.

Mr. GEARY: Your cash runs \$18,000,000, on the average, I suppose.

Mr. COOPER: There is no substantial change from year to year in this account.

Account 752, stock liability for conversion.

Mr. HANSON: The \$270,000,000 that is the gross set-up.

Mr. COOPER: It is the capital stock held by the government and the public. Intersystem holdings, of course, are eliminated. The detail is given on pages 34 and 35.

Mr. GEARY: How much of that is held by the public?

Mr. COOPER: Out of that \$270,000,000, approximately \$265,000,000 is held by the government.

Mr. GEARY: Very little by the public then?

Mr. COOPER: Yes.

Mr. GEARY: And where appears here all this disputed Grank Trunk stuff we hear of occasionally? I am thinking of the pile of petitions filed by Mr. White the other day, as to liability.

Sir HENRY THORNTON: That relates, Colonel, to the claims of certain shareholders of the old Grand Trunk Company who were dissatisfied with the settlement which the directors of that company made at the time; they feel that they have a claim because their stock was wiped out.

Mr. GEARY: They feel in other words, that their stock has not been wiped out.

Sir HENRY THORNTON: In other words, that their stock still exists.

Mr. GEARY: We do not take account of that.

Sir HENRY THORNTON: Oh no, it is not in this at all. As far as the railway is concerned, that is a closed book.

Mr. HANSON: How much of this is in coal companies? On page 34 there is a schedule of companies comprising the system.

Sir HENRY THORNTON: The only coal company that we own is in the Rail and River Coal Company, and that came as an inheritance from the old Grank Trunk. It is shown at about \$2,000,000, about half down page 34.

Mr. COOPER: Account 754, grants in aid of construction; account 755, funded debt, unmatured. Then we have the Dominion of Canada account.

Mr. HANSON: That 755 account, unmatured debt in the hands of the public.

Mr. COOPER: Yes. Account 758, loans and bills payable; account 759, traffic and car service balances, payable.

Sir HENRY THORNTON: Just a minute, Mr. Cooper. I am afraid I have given you a wrong impression, Colonel Geary, about that Grand Trunk situation, although the effect is the same in any case. The stock was transferred to the government, and the shareholders object to their having been divested of that stock. It comes to the same thing in the last analysis.

Mr. GEARY: Then that being transferred to the government, would that capital stock appear in item 751?

Sir HENRY THORNTON: Yes, it would; that is where I misled you.

Mr. CHAPLIN: Going back to that Dominion of Canada account, interest on above accrued but unpaid; is that up to the end of the year?

Mr. COOPER: To December 31st, 1929, yes.

Mr. HANSON: Is that interest compounded?

Mr. COOPER: No.

Mr. GEARY: That item of loans stands as it did last year, and appropriations account also stands as it did last year.

Mr. COOPER: There are some slight changes, more or less bookkeeping items.

Mr. GEARY: There has been no addition, though, to this?

Mr. COOPER: No, the loans from the Dominion government were reduced by \$20,000.

Mr. HANSON: What was that item?

Mr. COOPER: The purchase of two government ships, that is the Canada Atlantic Transit Company purchased two of the merchant marine ships, and they are paying them off in instalments of \$10,000 a year. Account 758, loans and bills payable.

Mr. HANSON: Are those bank loans?

Mr. COOPER: The first item is to the bank, and the second item is to the minister.

Account 759, traffic and car service balances payable; account 760, audited accounts and wages payable; account 761, miscellaneous accounts payable; account 762, interest matured unpaid; account 764, funded debt matured, unpaid.

Mr. GEARY: How have you interest matured unpaid?

Mr. COOPER: That would be due on January 1st.

Account 766, unmatured interest accrued; account 767, unmatured rents accrued; account 768, other current liabilities; account 770, other deferred liabilities.

Mr. HANSON: What would that be?

Mr. COOPER: The principal item there would be contracts' drawbacks and things of that sort.

Account 771, tax liability; account 773, insurance and casualty reserves; account 775, accrued depreciation—road; account 776, accrued depreciation—equipment; account 777, accrued depreciation—miscellaneous physical property.

Mr. GEARY: You do not set up a depreciation reserve on your ordinary assets, do you?

Mr. COOPER: Those reserves apply to our properties in the United States.

Mr. HANSON: You have to do it because of the Interstate Commerce Commission.

Mr. COOPER: Account 778, other unadjusted credits; account 779, additions to property through income and surplus; account 780, funded debt retired through income and surplus; account 781, sinking fund reserves; account 783, appropriated surplus; account 784, profit and loss balance—deficit.

Mr. BELL (*St. Antoine*): Sir Henry, could we have a general statement so that the ordinary layman could understand it, of really how much the Dominion government has invested in the Canadian National system? The assets are over \$2,000,000,000, are they not, at the present time? Is there any way of arriving at how much the government has put into it to date?

Sir HENRY THORNTON: We can arrive at that, but I would not want to give you an answer off the bat. I can give you that possibly this afternoon or to-morrow morning.

Mr. COOPER: It is shown on the balance sheet in the next item after 755, Dominion of Canada account. That is the total investment.

Sir HENRY THORNTON: That is not what Mr. Bell means. What Mr. Bell wants to know is, when all is said and done and everything is mopped up, how much money in cash has the Dominion of Canada put into the Canadian National Railways. That is what you want to know?

Mr. BELL (*St. Antoine*): Correct.

Hon. Mr. CRERAR: From what date?

Sir HENRY THORNTON: From the first contribution to date, that is what you want to know?

Mr. BELL (*St. Antoine*): Yes.

• Mr. COOPER: The answer is here, sir.

Sir HENRY THORNTON: Mr. Bell means, how much money has the Dominion of Canada put into the property?

Mr. COOPER: They have given us cash loans of \$601,446,082.13. They have spent on account of Canadian government railways \$417,150,140.59. That is apart from accrued interest. In addition, in the item of 751, capital stock, they paid \$10,000,000 for the Canadian Northern stock, and that is all.

Mr. BELL (*St. Antoine*): That is only about \$1,010,000,000, according to those figures.

Mr. HANSON: I do not think you can get at it very well because away back of that there was subsidies.

Sir HENRY THORNTON: I would like to have time to consider that question. We will try to give you the answer this afternoon or to-morrow.

Mr. GEARY: That item of loans from the Dominion includes subsidies.

Some Hon. MEMBERS: No, no.

Mr. GEARY: Mr. Bell would want to know subsidies, I suppose, in addition to what is shown here.

Mr. BELL (*St. Antoine*): I do not want to ask for it, if it is too much trouble.

Sir HENRY THORNTON: We will see if we can get it for you in the form you want it, and subdivide it sufficiently to make it clear.

The CHAIRMAN: Is it the desire of the committee that we should go on with the details of the railway operating expenses, or shall we go on with the Maritime Freight Rates Act?

Mr. HANSON: I think we had better take up the profit and loss account. Is this the usual form of auditors' certificate, the same as last year?

Sir HENRY THORNTON: Yes. I think it has been the same for several years.

The CHAIRMAN: Page 16, profit and loss account, 1929.

Mr. COOPER: Account 611, debit balance at January 1, 1929; account 612, debit balance transferred from income; account 613, surplus applied to sinking and other reserve funds; account 615, surplus appropriated for investment in physical property; account 618, miscellaneous appropriations of surplus; account 619, loss on retired road and equipment.

Mr. HANSON: What is that item?

Mr. COOPER: That is the loss occasioned by the writing off of property that is not replaced. In Canada equipment is not taken care of through profit and loss but through the operating expense account.

Mr. GEARY: And you just charge that to profit and loss?

Mr. COOPER: That is, property that is retired and not replaced, is charged to profit and loss account.

Account 620, delayed income debits; account 603, profit on road and equipment sold; account 605, unrefundable overcharges; account 606, donations; account 607, miscellaneous credits and debits met.

Mr. HANSON: Account 603, what is that? Do you ever sell road and equipment at a profit?

Mr. COOPER: Yes, we sell land from time to time on which we have a profit.

Mr. GEARY: That is, just over your book cost?

Mr. COOPER: It is the difference between sale price and book cost.

Mr. HANSON: And the equipment would come under that head?

Mr. COOPER: If we sold equipment. As a matter of fact, in 1929 we had an item of \$210,000 which was the difference between the ledger value of the car ferry "Milwaukee" and the amount of insurance recovered from the underwriters, so there is an item of equipment in 1929.

Mr. HANSON: There may be losses on some road and equipment sold?

Mr. COOPER: That would come under account 619.

Mr. HANSON: I thought you made a difference between what was retired and not replaced, and what was being sold?

Mr. COOPER: If there is a loss then it goes into account 619, and if there is a profit it goes into account 603. It is an offset.

Taking all the profit and loss accounts together, apart from the income loss, it amounts to only \$117,000.

Mr. HANSON: Your profit and your loss account shows an increased debit balance of about \$41,000,000 for the year.

Mr. COOPER: Yes, sir, of which \$40,933,000 was on income account.

Mr. GEARY: That is a very unfortunate situation, Sir Henry. You cannot make a favorable setup, under any circumstances, can you, with that heavy charge hanging around your neck?

Sir HENRY THORNTON: Just to put it briefly, important bankers and reputable financial and technical journals describe the present financial structure of the Canadian National Railways as the prize joke of the financial world, which is probably about as short a description of the whole thing as you can get, but in saying that I do not mean any criticism of anyone. It simply means that due to certain exigencies in the way in which the property was

acquired, and in some cases the rather erratic methods of finance that were employed by previous owners, the whole thing has grown into the state in which we have now found it. It simply grew into this condition because there was no single co-ordinating administration in charge of the properties, that is, the constituent properties. Now, again, to unravel all of the records and all of the finance operations of the whole of the system in years gone by, to catalogue and arrange the thing and devolve some kind of structure which is sound has, of course, involved a tremendous amount of work. I have studied it for seven years, and I am not quite sure yet whether I understand the blessed thing or not. As Colonel Geary intimates, this railway will never be able to manifest the showing that it really is making until it is put on that sound financial basis which any private enterprise would want to have under similar circumstances.

MR. GEARY: When you have to carry a credit of \$513,000,000 into the balance sheet it looks bad, but it does not indicate at all how the road is running and has been running for the past few years.

SIR HENRY THORNTON: No, we are inarticulate as far as trying to present the picture is concerned, that really should be presented.

MR. COOPER: Account 607, miscellaneous debits and credits met; account 622, adjustment of land surplus account; debit balance forward to balance sheet.

THE CHAIRMAN: Gentlemen, what is the desire of the committee? Shall we go on with the special accounts or go on with Eastern Lines?

SIR HENRY THORNTON: If you want to examine the details of the operating expenses the next page would be page 18, and then you go on to 19, and so on through the succeeding pages. You have dealt previously with the figures shown at the bottom of each one of these pages. You have not gone through the detail above that total.

MR. GEARY: I do not see much advantage in going through the primary accounts, at least the split-up.

SIR HENRY THORNTON: You have pages 18, 19, 20 and 21. We have details explaining the increase or decrease, as the case may be, in each one of these accounts, and will be very glad to answer any questions that anyone wants to ask. It is for the committee to decide how far it wants to go.

MR. GEARY: That is the way really, you have to keep your accounts.

SIR HENRY THORNTON: Take maintenance of way and structures, and so on; we have accounts 201, 202 and 206, those are all laid down by the accounting regulations.

MR. GEARY: And last year we had your auditor here, who explained the detail and check-up of each one of these accounts, and I do not see where we can get behind them if we wanted to. Has your overhead office expense gone up? I suppose that is allocated to different general accounts.

SIR HENRY THORNTON: There has been an increase of \$119,000 in general expenses out of a total of practically \$7,000,000. The most of that increase has been in increases in salaries and expense of general offices, increases in salaries and expenses of clerks and attendants, general office supplies and expenses. There has been a decrease in law expenses. There has been an increase in pensions of \$45,000. That accounts for 40 per cent of it. There has been an increase in valuation expenses, and those are the principal variations. There is an increase of \$40,000 in salaries, in salaries of clerks and attendants, that is, clerks, stenographers and others in the general offices, and \$45,000 in pensions, and \$33,000 in valuation expenses. That would account for the most of it.

Mr. GEARY: Is any part of that general expense account, or head office expenses, generally allocated to the subsidiary accounts?

Sir HENRY THORNTON: No.

Mr. GEARY: Like superintendence, for instance, under maintenance of equipment?

Sir HENRY THORNTON: No.

Mr. GEARY: No proportion of overhead is charged to those other accounts?

Sir HENRY THORNTON: No. General expenses are a separate primary account.

Mr. CANTLEY: Item 274, injuries to persons, I notice there is an increase there.

Sir HENRY THORNTON: In railway operating expenses, page 19?

Mr. CANTLEY: Yes.

Sir HENRY THORNTON: That item increased \$103,000.

Mr. GEARY: And even at that I expect motors are doing better than you in the way of hurting people.

Sir HENRY THORNTON: I dare say that if you did add up all of the accidents that occurred on highways they would considerably exceed the accidents occurring on all the railways.

Mr. CANTLEY: What is the explanation of the increase, roughly?

Sir HENRY THORNTON: As I mentioned the other day, it is almost entirely a matter of luck. The same thing applies to personal injuries. You may have a disastrous wreck one year that may cost half a million dollars, and you might not have it again for a period of years. And, curiously enough, sometimes the worst accidents that happen are on railways that are the best equipped. In other words, it is largely a matter of luck. It is quite true that good roadbeds, good cars, automatic signals, good discipline and proper supervision tend to decrease all that sort of thing, but still in spite of all that you may now and again get a very nasty wreck.

Mr. CANTLEY: But, generally speaking, as far as my memory goes, you have not had any outstanding railway accident during the last year.

Sir HENRY THORNTON: We had a very nasty one last year up in the north country.

Mr. CANTLEY: Did that materially increase those figures?

Sir HENRY THORNTON: I should think probably that is undoubtedly reflected in that increase, or some of it.

Mr. CANTLEY: Can you give us any idea how much crossing accidents contributed to this increase?

Sir HENRY THORNTON: Automobile accidents in connection with the railway cost us about \$10,000 last year.

Mr. CANTLEY: That is negligible in amount.

Sir HENRY THORNTON: Yes.

Mr. GEARY: Where is your item for level crossing separation?

Sir HENRY THORNTON: Grade crossing separation expenses.

Mr. COOPER: In capital expenditure account.

Mr. HANSON: What is the policy of the system with respect to the elimination of grade crossings?

Sir HENRY THORNTON: That is a progressive work that is being carried on as rapidly as circumstances will permit. Take the situation in London. There is a bad crossing situation there which we have now under consideration with the city, and which will necessarily involve the elimination of those crossings.

The grade crossing problem is one which has received serious attention by the railway, and substantial progress has been made towards the elimination of the more dangerous of these crossings. In the period from 1923, 230 crossings at grade have been eliminated by grade separation or road diversion. In other words, since 1923 we have got rid of them at about the rate of 30 a year, or a little more than that.

Mr. GEARY: You are urging, though, before the railway board that you have not the money to spend on the elimination of grade crossings, with orders that might otherwise be perfectly justifiable, resisted by you because you do not want to spend the money, because your revenues are decreasing, and so on?

Sir HENRY THORNTON: Yes.

Mr. GEARY: Within certain limits that might be a proper objection.

Sir HENRY THORNTON: Well, Colonel, it is very much like a good many other things on the railway. When railways were first built in this and other countries the grade crossing situation was not a serious one; in fact we had the spectacle of railways sometimes running down the main streets of what were then towns, and they were regarded more or less as an asset, because it gave the community something to do, to watch the trains go by. But gradually the cities built up, and gradually the speed of the trains increased, the traffic increased, and this situation which thirty or forty years ago was a negligible factor became a major factor. Then after that there came upon the railways a demand all over the country—not in any one particular place but all over the country—for the elimination of those crossings, and the position of the railways is generally this: Yes, an admirable thing to do, a necessitous thing to do and something that has got to be done, but we cannot do it all at once, there are other demands on the revenues of the railway other than the elimination of grade crossings which are in some cases just as necessitous, such as the building of new stations, at places where stations have become inadequate, and many things of that sort. We do unquestionably recognize the importance of grade crossing elimination, but we feel, first, that the problem is a mutual one. We are not solely responsible for this condition which has developed. We ask, and we think it fair, that communities—the city or the province, or whatever it may be—but at any rate some instrumentality other than ourselves to assist in a public problem. And, secondly, we want to do it as fast as our purse will permit, but it cannot all be done at once, however desirable it may be.

Mr. HANSON: Is not the chief factor in retarding this betterment the unwillingness or the inability—I think it is fair to use the latter expression of the municipalities to make the statutory contribution?

Sir HENRY THORNTON: That is unquestionably a large factor.

Mr. HANSON: Because parliament has shown a different disposition. We have increased the advance to the grade crossing fund.

Sir HENRY THORNTON: We have on the whole of the Canadian National System approximately 16,000 crossings at grade. Many of those, of course, do not require treatment, probably will not require treatment for many years to come, but on the other hand there is quite a large proportion that require treatment immediately, but which if eliminated in a year or two or three years would involve the company in an unjustifiable expense, and the communities as well if they make any contribution.

Hon. Mr. CHAPLIN: On the other hand, if you eliminate them at the rate we are going, we are all going to be very old before they are eliminated.

Sir HENRY THORNTON: I think that is true. I think we probably will be. There is nothing a railway officer dislikes so much as a grade crossing, and there is nothing a railway engineer dislikes so much as a grade crossing. It is merely a question of how quickly the money can be provided.

Hon. Mr. CHAPLIN: You mentioned the city of London as a very outstanding example.

Sir HENRY THORNTON: It is.

Hon. Mr. CHAPLIN: Can you give us an idea of the cost of looking after the different grade crossings going through London?

Sir HENRY THORNTON: That is all under contract with the city now, and we are going to build a station there, starting next year, and follow that up with the grade elimination. I think the whole job amounts to a million and a half dollars.

Mr. HUNGERFORD: It is rather more than that. Over a period of years it will be about three million dollars.

Mr. GEARY: I hope you are crediting to that the value of the London station you are going to destroy.

Sir HENRY THORNTON: No, that goes into a museum.

Mr. GEARY: Or the archives, I should suggest.

Sir HENRY THORNTON: We are going to put it along with the old hotel, side by side.

Mr. HANSON: There is another situation east and west of Hamilton. We have had some very bad accidents there, fatal accidents. I believe the provincial government are moving in some direction, are you cooperating?

Sir HENRY THORNTON: I do not know offhand about that, but unquestionably there are dozens of crossings all over Canada that are indefensible. They ought to be eliminated and I should like to see them eliminated.

Mr. HANSON: I have often thought in regard to the Campbellton situation that a good deal of help could be given to the railways if they would reduce the speed on entering and leaving. There is also a situation at Fredericton. That is a very vital problem, with the railway going through the back of the town.

Sir HENRY THORNTON: We are making a study of the whole grade crossing situation along with the railway commission.

Mr. HANSON: Well, they are interested in it.

Mr. GEARY: For instance, what have you under order now. Nothing that is of importance? London is not under order. Have you quite finished your negotiations?

Sir HENRY THORNTON: We have finished our negotiations. That is all settled, and that will come along next. It cleans up the London situation.

Mr. GEARY: In Toronto we have what is known as the northwest grade separation. It was declared to be necessary, and ordered, in fact, only the time for commencement of construction was not ordered. The city stands prepared to carry on the work. I think we are paying half the cost under previous order, and the railways come along and say, it is all very well, it is required; there are thousands and thousands of motor cars and pedestrians crossing there every day, running risks, almost in the centre, in the western half of the city, and you put up the plea, No, we have not got any money to pay our share although it is something that has been ordered.

Sir HENRY THORNTON: I do not know offhand just what the situation is there. I suppose there is some dispute as to the division of cost.

Mr. GEARY: There is no dispute as to the division of cost.

Sir HENRY THORNTON: You mean to say, then, that everything has been settled and the railways have not started?

Mr. GEARY: In that particular case there was awarded the hardest division of cost, I think, that I have seen, that is, 50 per cent to each. You built your subway at one street, but not at St. Clair Avenue, which is a main thoroughfare.

You know it very well. The town is split in two, and we want you to proceed with that work.

Mr. HUNGERFORD: My recollection of the matter is that the board has not yet ordered it..

Mr. GEARY: It has ordered a subway, but not the time for commencement.

Mr. HUNGERFORD: The view of the board, and the railway officers, has been that we are doing a great deal of work. The waterfront in Toronto is grade crossing work.

Mr. GEARY: That is not a fair objection because that was all in sight when the railways practically consented to the order being made. You are spending a lot of money there, although we are contributing one-third and you one-third. The City of Toronto I speak of. It is a very serious question. I think, Sir Henry, if you were to look into that personally you would see that something ought to be done.

Sir HENRY THORNTON: I am very glad that you mentioned it, Colonel. We shall take it up right away.

Mr. GEARY: I think if it came to your personal observation, no doubt something would be done immediately, if you saw the facts and what has transpired in the railway board.

Sir HENRY THORNTON: With respect to the general question the railway is spending—all railways are—as much money as they can allocate to this particular trouble, and we wish we could allocate very much more to it.

Mr. GEARY: I do not think you are spending a great deal at the moment.

Sir HENRY THORNTON: Well, we have spent a tremendous amount of money in Toronto, and we are getting ready to spend a large amount in Montreal, eliminating all of those very bad crossings west of Bonaventure station.

Mr. GEARY: You have spent a great deal in Toronto, and you have spent a great deal elsewhere, but Toronto has always come through with you with its proper share. I do not think it was your objection, perhaps, so much as the other railways.

Sir HENRY THORNTON: I am not very familiar with just the exact details of that, but at any rate we would like very much to examine into that particular crossing and see what we can do.

Mr. BELL (*St. Antoine*): Sir Henry, I was noticing the report of the deputy minister; there has been some change in your pension system since the last meeting.

Sir HENRY THORNTON: Mr. Robb, will you explain the present pension position to Mr. Bell?

Mr. ROBB: A pension system has now been spread over the whole of the Canadian National system. Previous to that there was only a pension system on the Grand Trunk and on the Intercolonial, and to take care of the pensioners on the rest of the Canadian National system until such time as they had the pension over the whole of the system, the pension is given to the pensioners based on the old Grand Trunk system, and similar to what they had on the Intercolonial. Last year the system was completed and now it has been placed over the whole of the Canadian National Railways. The minimum was increased, and a few changes made, but it is pretty much on the basis of what we had on the older part of the system.

The CHAIRMAN: The old employees are given the choice of which of the two pensions they wish.

Mr. ROBB: Yes. The old pension system was handled by a committee consisting entirely of the officers of the railway, but under the new system there are two employees from the labour organizations on the committee, and everything is working very harmoniously.

Mr. CANTLEY: Sir Henry, referring back a moment to grade elimination, have you arrived at an understanding with the town of New Glasgow with regard to eliminating some of your crossings there?

Sir HENRY THORNTON: I do not know.

Mr. HUNGERFORD: I think not.

Mr. CANTLEY: I was hopeful that that matter had been decided.

Mr. HUNGERFORD: It has been under discussion for quite a while.

Mr. CANTLEY: Surely it has gone further than that.

Sir HENRY THORNTON: We will look that up, Colonel. I cannot tell you offhand exactly what condition it is in, but I will do that and give you an answer.

Mr. HANSON: As a general rule, municipalities do not want to close up the streets, and they want you to bear all the expense of an underground crossing.

Mr. CANTLEY: In this particular case, I was called in and we had two or three conferences with some of your officials and I understood the matter was finally settled, at least I hoped it was.

Sir HENRY THORNTON: I will let you know exactly the state it is in.

Mr. CANTLEY: I would like to know what the hitch is.

Sir HENRY THORNTON: I do not know of any.

Mr. BELL (*St. Antoine*): Seeing there are many local questions being put to you, has there been any change in view of the representations made by the new city council as to the terminal facilities at Montreal whereby these are being held up at all, or are you planning to go ahead with the work as contemplated?

Sir HENRY THORNTON: The position there is this: The plans of the railway company were presented at the last session of parliament; the whole subject was discussed and examined, everybody was heard, and finally parliamentary approval was given to what was proposed. The city administration of that date consulted with the railway company and full civic authority was given, so that as far as authority and legality is concerned the railway is in a position to proceed with its work and is doing so. Meanwhile, there was a change in the city administration, and the new administration took some exception to the treatment of the grade crossing position from Bonaventure west, and asked that the railway company should delay its work until the city had an opportunity to further examine the position. The answer given to the city, partly by conversation between myself and the mayor, and partly by written communication was this: The railway company will not depart from the principle of the general plan; that, we believe, represents the best treatment of the whole terminal position, represents several years of intensive study, and we will not—short of sudden death and destruction—depart from the principles of that plan. It maybe that here and there some adjustment can and should be made, as might naturally occur with respect to so large a scheme, but no change in the principle. Specifically in regard to the grade crossing situation from Bonaventure west, we have said to the city that we proceeded in good faith and with full legal authority. If the city want that work delayed for a reasonable length of time we are willing to do so provided the city will pay the cost of such delay. We have let contracts, contractors are at work, and to stop that work will involve a certain cost, roughly estimated at about \$50,000. If the city is prepared to bear that cost, as I say, we will stop for a reasonable length of time. That represents the general position.

Mr. GEARY: And the city's objection involves a change in principle of the scheme?

Sir HENRY THORNTON: I do not think I could go so far as to say that, perhaps there was some criticism of the general plan, but in respect to that, in so far as the railway is concerned, there will be no compromise whatsoever. And I cannot make that too emphatic, and if anybody wants a fight that is a devilish good way to get one.

Mr. GEARY: Well, the city of Montreal is a very happy family.

Sir HENRY THORNTON: As far as our relations with the city council concerned, and the city administration, they are amicable and friendly, and I see no reason that there should be any trouble, but just in case someone wants to start trouble that is a very good way to do it.

Mr. HANSON: The difference between you is this, that they want the elimination of grade crossings by the substitution of tunnels.

Sir HENRY THORNTON: As far as I am advised, there is a certain school of thought in Montreal which feels that the elimination of the grade crossings from Bonaventure west should be by depressing the railway company's tracks. The present plan provided that the railway company would go over most of the streets. If we undertook to eliminate those grade crossings by depression we would run into some very serious engineering and drainage problems. As far as the railway is concerned, we would like very much to meet the wishes, not only of the municipality of Montreal in a case of this sort, but any municipality, providing it is constructively possible, but we cannot do impossible things.

Mr. GEARY: How far would your grade be diverted west of Bonaventure if you went down?

Sir HENRY THORNTON: Well, that would involve some serious grade situations, and it would also probably involve lowering the level of Turcotte yard, and would introduce some serious drainage problems and a good many other engineering difficulties.

Mr. GEARY: All of which you have considered?

Sir HENRY THORNTON: All of which were threshed out long before this particular discussion appeared.

Mr. CANTLEY: You would likely have a flood menace.

Sir HENRY THORNTON: Yes, which would probably make Jonah look like a mere amateur.

The CHAIRMAN: Shall we go on with Eastern Lines, page 41?

Mr. BLACK (Halifax): I would like to call the attention of Sir Henry to the time occupied at present by the Ocean Limited between Halifax and Montreal. It is called an express train. Also to the time occupied by the Maritime Express, which is also called an express train. At the present time, we occupy as long in reaching Montreal from Halifax and vice versa, as we did thirty years ago. It does seem to me that a quicker train service between the maritime provinces, especially Nova Scotia, and Montreal, would add considerably to your traffic. The equipment is all right. I do not think anybody can criticize or complain of that, but the time I maintain should be very much shortened over that which existed thirty years ago.

Sir HENRY THORNTON: I am very much obliged to Mr. Black for his criticism which I know is,—and is meant to be—constructive. We will examine the situation and see what can be done, but offhand I would say that the difficulty is the number of stops which that train is obliged to make.

Mr. BLACK (Halifax): That is the whole trouble, so many stops.

Sir HENRY THORNTON: The only way to meet that situation is to introduce a local train which will do the smaller station work, and relieve the Ocean Limited from the necessity of making so many stops.

Mr. BLACK (Halifax): If you will look up the timetable and study the stops of the Maritime Express, you will find there are 88 in the stretch between Montreal and Halifax.

Mr. HANSON: The Maritime Express is an express only in name. It is really only a local train.

Sir HENRY THORNTON: If you take off the stops, that means another train.

Mr. BLACK (Halifax): Then you come along and you put on the Acadian, and you call that a wonderful train. It is simply that your Ocean Limited is overloaded, and you are running it in two sections. The time last year, I believe, was a little better than the Ocean Limited.

Sir HENRY THORNTON: Yes, it was faster.

Mr. BLACK (Halifax): But in travelling with it, Halifax to Campbellton, half the distance, the Acadian and the Ocean Limited are in sight of each other.

Sir HENRY THORNTON: It simply means cutting out stops and putting on another train. That is the only way you can meet that situation.

Mr. HANSON: You have local trains now.

Sir HENRY THORNTON: You have got to work in local services in relationship to the schedule of the Ocean Limited.

Mr. BLACK (Halifax): There is another matter I would also like to bring to your attention. I am informed that the branch line from Halifax to Musquodoboit is a paying proposition, and that the Waverley-Dartmouth line is not a paying proposition. In order to break even with the two you couple up the operation of the Dartmouth-Waverley with the Musquodoboit, and the Musquodoboit, if it pays well, should have better equipment. The passenger car there is nothing more than a cattle car.

Sir HENRY THORNTON: You do not say that in derision?

Mr. BLACK (Halifax): It does not suit the people. They are standing there time and time again on that road. There is a bit of a stove in one corner, and your front is baked and your back is shivering. That is the condition. The Musquodoboit is a good paying proposition, I am told, but the service is what we had fifty years ago.

Sir HENRY THORNTON: Do you happen to know anything about it offhand, Mr. Hungerford?

Mr. HUNGERFORD: No.

Mr. BLACK (Halifax): I would like the management to take that into consideration.

Mr. HANSON: It ought to be easy to give decent equipment.

Sir HENRY THORNTON: If there are cases nobody wants to hear of them more than I, and Mr. Black and all of our friends in the maritimes can rest assured that nobody will make a greater effort to meet their wishes.

Mr. BLACK (Halifax): I do say that the people travelling on that road should have some degree of comfort.

Sir HENRY THORNTON: We will endeavour to do all we can.

The CHAIRMAN: Is it your desire that we should go to the Income Statement, page 43, or do you desire that Sir Henry should make a statement, or read the letter to the minister on page 41?

Sir HENRY THORNTON: I suggest that you go on with the income statement. That will probably crystallize the situation as quickly as anything.

Mr. COOPER: Eastern Lines income statement, page 43.

Account 501, railway operating revenues; account 531, railway operating expenses; account 532, railway tax accruals; account 533, uncollectible railway revenue; account 502, revenues from miscellaneous operations; account 534, expenses of miscellaneous operations; account 535, taxes on miscellaneous operating property.

Mr. HANSON: "Railway operating deficit". In view of your increased car loadings down there, that should diminish, should it not? What is the explanation this year?

Sir HENRY THORNTON: Maintenance of way and structures, \$211,000; maintenance of equipment expenses increase, \$911,000, and traffic expenses increase, \$88,000.

Mr. HANSON: Have we any detail of that here?

Sir HENRY THORNTON: I do not believe you have. I am just giving you the increases in the primary accounts. Transportation expenses increased by about a million dollars.

Mr. HANSON: Why are the Eastern Lines segregated, singled out as opposed to the rest of the system?

Sir HENRY THORNTON: That is a statutory requirement, Mr. Hanson. We are required to keep the accounts of the Eastern Lines separately, and there would be no way of determining the obligation to the government unless that were done. Does that answer your question satisfactorily?

Mr. HANSON: I think perhaps it does.

Mr. CANTLEY: I do not see why that arrangement cannot be made between the officers of the railway and the government without detailing the whole items that enter into the calculation.

Sir HENRY THORNTON: Well, the probabilities are that if we did that, then a large number of individuals would want to reverse it. As a matter of fact, the form in which this report appears here this year, if my recollection serves me rightly, is in conformity with the wishes of the committee last year.

Mr. CHAPLIN: There is no question about it.

Sir HENRY THORNTON: And we made the effort to meet that wish.

Mr. CANTLEY: My recollection may be at fault, but it is not the the same as yours.

Sir HENRY THORNTON: Well, I will leave it to the other members of the committee who were here last year.

The CHAIRMAN: I had positive instructions, as chairman last year, to see that the two reports would be kept absolutely separate.

Mr. HANSON: From whom did you receive your instructions?

The CHAIRMAN: From the members of the committee. That was the consensus of the majority of the committee.

Sir HENRY THORNTON: I will do anything that this committee wants. I have had two shots at it, and I have apparently been successful in doing the wrong thing each time. If you gentlemen will tell me what you want, we will do it. That is what I thought we were doing this year.

The CHAIRMAN: It is in the evidence of last year.

Mr. CANTLEY: My point of view is this: There may be deficits on certain sections of the western lines, and they are not shown up as these are and, to my mind, there is an invidious distinction in connection with the reported losses on the eastern lines.

Sir HENRY THORNTON: Do I infer from that that you resent the operation of the Maritime Freight Rates Act?

Mr. CANTLEY: No, I do not, but I do not think it should be advertised throughout the whole of Canada every year that we are paupers who have to be assisted.

Sir HENRY THORNTON: My recollection of the maritimes is that they feel Canada owes them something.

Mr. CANTLEY: I agree with that.

Sir HENRY THORNTON: If you will tell me just how you want it done, we will do it that way.

Mr. HANSON: If the principle is accepted, that seems to me to be all right.

The CHAIRMAN: That is the principle that was adopted last year, there is no getting out of that.

Mr. GEARY: I think what Colonel Cantley is referring to is not so much the combination of statements that you have in this pamphlet as the fact that there should be an entire combination of all receipts and expenditures of the whole system, including the eastern lines. But Sir Henry points out that special features apply to the eastern lines, and that you have to keep them separate.

The CHAIRMAN: In accordance, with the act, they are compelled to give a few details in order, first, to satisfy the Auditor General.

Mr. GEARY: I see no other way of doing it.

Mr. COOPER: Account 504, rent from locomotives; 507, rent from equipment; 508, joint facility rent income; 509, income from lease of road; 510, miscellaneous rent income; 511, miscellaneous non-operating physical property; 515, income from unfunded securities and accounts 519, miscellaneous income; 536, hire of freight cars—debit balance; 537, rent for locomotives; 538, rent for passenger train cars; 541, joint facility rents; 542, rent for leased roads; 543, miscellaneous rents; 544, miscellaneous tax accruals; 545, separately operated properties—loss; 546, interest on funded debt; 546A, interest on Dominion government advances; 547, interest on unfunded debt; 551, miscellaneous income charges; government contribution, Maritime Freight Rates Act, 1927.

Mr. GEARY: Now, Sir Henry, is the Gaspé Railway carried into the eastern lines?

Sir HENRY THORNTON: Yes.

Mr. GEARY: And that takes its place in eastern lines, and the deficit on that road assists to make up the deficits payable by contributions from the government on all eastern lines?

Sir HENRY THORNTON: Yes.

Mr. GEARY: So that every line taken over helps to add to the deficits of those lines, presuming there is a deficit.

Sir HENRY THORNTON: Presuming there is.

Mr. GEARY: I mean, eastern lines is not a fixed set of lines; all the lines east of a certain point are eastern lines, no matter where you get them?

Sir HENRY THORNTON: That is right.

Mr. HANSON: Have you got them all in now?

Sir HENRY THORNTON: There may be one or two stragglers that thus far have escaped attention, but I think that we have pretty well mopped up the country.

Mr. HANSON: You have not taken in the Temiscouata?

The CHAIRMAN: Nor the Gulf Terminal.

Mr. GEARY: We have gone into the Government railway business, and we are bound to be loaded with poor propositions from the financial standpoint, and we have to accept the situation.

Sir HENRY THORNTON: Speaking of the Gaspé Railway, I would not despair of its future altogether. Of course, it is going to take very careful nursing and intelligent development of the community served, and all that sort of thing, but we will simply have to take those two lines and try to do the very best we can with them.

Mr. GEARY: I quite agree, Sir Henry. We are justified in taking the lines over, not from a financial standpoint.

Mr. HANSON: You resisted taking it over for seven years, Sir Henry.

Sir HENRY THORNTON: I resisted because I did not like the terms. We had been negotiating for several years, and we finally got to a point, having regard for all of the circumstances of the case, and the responsibility which a state-owned railway has to the community, where we felt we were justified in taking them over, and we did. These negotiations covered, I think, three or four years.

Mr. HANSON: With whom were you dealing, the British bondholders?

Sir HENRY THORNTON: We dealt with, chiefly, Sir William Plender, for the English bondholders.

Mr. GEARY: The point is, we are in the business, and we must take some railways which we would not take from a business point of view. I am not referring to Gaspé particularly.

Mr. CHAPLIN: How is that piece of road doing that runs up from Inverness county?

Sir HENRY THORNTON: That is the Inverness Railway?

Mr. CHAPLIN: Yes.

Sir HENRY THORNTON: How is it getting on, Mr. Hungerford?

Mr. HUNGERFORD: It is going on in the same old way.

Mr. HANSON: Still losing money.

Mr. GEARY: There is a contribution to meet the 20 per cent rate reduction, and that you carry into net revenue?

Mr. COOPER: Yes.

Mr. GEARY: Then there is a contribution to meet the deficit on eastern lines?

Mr. COOPER: Yes.

Mr. GEARY: In connection with that government contribution to meet the deficit on eastern lines, part of which is carried as a credit to profit and loss—

Mr. COOPER: That is the item of \$5,165,255.64.

Mr. GEARY: You call that "government contribution Maritime Freight Act, 1927," and with all respect it seems to me that perhaps that is a little illusory, because the government contribution to the Maritime Freight Rates Act is described in the note as the 20 per cent rate reduction.

Sir HENRY THORNTON: Except this, Colonel: It says \$2,438,074.82 is for the purpose of meeting the 20 per cent rate reduction under the Maritime Freight Rates Act.

Mr. GEARY: Yes, the Maritime Freight Rates Act of 1927 covers both contributions.

Mr. COOPER: Yes.

Mr. GEARY: I think if that were made a little different—

Sir HENRY THORNTON: What would you suggest?

Mr. COOPER: You might read the note.

Mr. GEARY: I thought it was not quite as clear as it might be.

The CHAIRMAN: It is in two parts, Mr. Geary, A and B, A covering the 20 per cent reduction and B covering the deficit. You will find it in the note on page 43.

Sir HENRY THORNTON: Is it your point that that note might be amplified in some way?

Mr. GEARY: That is my point. I did not quite understand it when I read it.

Mr. COOPER: Profit and Loss Account, 1929.

Account 603, profit on road and equipment sold; 605, unrefundable overcharges; 606, donations; government contributions.

Mr. GEARY: That government contribution plus the one in the preceding income statement makes \$5,560,000 odd, the total government contribution to deficits of carrying on eastern lines.

Mr. HANSON: Under the Maritime Freight Rates Act?

Mr. GEARY: No, it is not the 20 per cent reduction. The 20 per cent reduction is in railway operating revenues, is it not?

Sir HENRY THORNTON: Yes, it is shown on page 44, I think.

Mr. GEARY: And to the \$5,160,000 must be added the \$395,000 in order to find the government contribution to deficits on eastern lines.

Mr. COOPER: Yes. I should explain that that is not altogether a cash contribution. It includes, for instance, interest on government advances. The total contribution by the government would be \$2,438,074.82 under the 20 per cent, and \$4,762,217.22 under the deficit.

Mr. GEARY: And something in account?

Mr. COOPER: And something in account, cancellation of interest, etc.

Mr. HANSON: What is the item of donations?

Mr. COOPER: It represents traders' sidings constructed at the expense of the trader on the railway company's property while the ownership rests with the railway company. It is the value of the property which we acquire from the trader at his expense.

The CHAIRMAN: Then debits.

Mr. COOPER: Account 619, loss on retired road and equipment; 620, delayed income debits; 621, miscellaneous debits and credits, net.

Mr. GEARY: There is just one thing that I am interested in on page 44. You show your dining and buffet service receipts at \$275,000, and on page 48 your expenses in connection with that same item are \$405,000. Does that mean that those services, with all charges against them, lose money at that rate—account 131 and account 441, the latter of which is to be found on page 48. Am I right in that?

Sir HENRY THORNTON: I think you are, Colonel.

Mr. GEARY: That is all expenses, including purchases of supplies, charge of hauling, and all that sort of thing?

Mr. COOPER: Not the charge of hauling.

Sir HENRY THORNTON: Everything which is properly chargeable, under the accounting system, to that account is there.

Mr. GEARY: So that is really service and material and supplies?

Sir HENRY THORNTON: Yes.

Mr. COOPER: Dining car service, supplies, and all that sort of thing, but not the cost of hauling the dining cars. That could not be separated out of train costs.

Mr. GEARY: Then it does lose money?

Sir HENRY THORNTON: Oh, yes. There is a very funny situation there, apparently, on this side of the Atlantic as compared with Europe. Generally speaking, the restaurant car services in Europe are on the table d'hôte basis, you take what is given to you ordinarily I found, and I expect you all have had the same experience, and have found that it is reasonably satisfactory. But on this side of the Atlantic, for some reason or other, the public will not have table d'hôte service. It has been tried out on a good many different railways, and I confess I could never quite understand it, but for some reason the public on the North American continent seem to insist on an à la carte service in restaurant cars.

Mr. CANTLEY: If you gave them the other, they would have to accept it.

Sir HENRY THORNTON: Colonel, you ought to be in my place.

Mr. CANTLEY: No, I ought not to be in your place, but I have travelled on both railway systems.

Sir HENRY THORNTON: That is the most refreshing thing I have heard for a long time. If you could get the public to take what you like to give them this would indeed be a happy world. Of course, they would have to take it, but the life of any railway officer would not be worth living.

Mr. CANTLEY: If you gave them reasonable service.

Sir HENRY THORNTON: Colonel, we have tried it out on other railways; many railways in the United States have tried it out and it has not been a success.

Mr. HANSON: You have tried it out on your fish dinner.

The CHAIRMAN: In Europe they include wine in their bill of fare, and in Canada they do not.

Sir HENRY THORNTON: Yes, but you pay for it.

The CHAIRMAN: Not separately.

Sir HENRY THORNTON: Well, the wine that you get for nothing is not fit to drink.

The committee adjourned at one o'clock to resume at 4 p.m.

AFTERNOON SESSION

The committee resumed at 4 p.m.

The CHAIRMAN: We had considered the income statement of the eastern lines, and also the profit and loss account, page 43 of the general report. Is it the desire of the committee that we examine in detail the railway operating revenue and expenses? What we have dealt with on page 48, practically speaking, covers the whole thing.

Hon. Mr. STEVENS: I do not want to examine them in detail. Had you finished with page 43?

The CHAIRMAN: Yes.

Hon. Mr. STEVENS: Then what more do you want?

Sir HENRY THORNTON: Perhaps I might take each one of the primary accounts in revenue expenses, and deal with the total, then if there are any questions with respect to any of the sub-items they could be asked and we might save time.

For the year ended December 31, 1929, there was an increase in operating revenues of \$2,658,000. Of that amount \$1,675,000 related to freight. The

other items were more or less scattering. There were no outstanding items of decrease. There was an increase of \$163,000 in express revenue; an increase of \$160,000 in passenger revenue; an increase of \$51,000 in sleeping car revenue; an increase of \$311,000 in telegraph and telephone revenue, largely because of our taking over the Western Union lines in the maritime provinces.

Generally speaking, I think that those increases point to an improved business condition in the maritimes.

In railway operating expenses there was an increase of \$111,000 in maintenance of way and structures; an increase of \$911,000 in maintenance of equipment; an increase of \$88,000 in traffic, and an increase of \$1,050,000 in transportation. The increase in transportation reflects the increase in business because the transportation expenses fluctuate as the business increases or decreases. The increase in maintenance of way and structure expense was due to the continuance of the policy of laying heavier rail, putting in heavier ballast and generally improving the roadbed. The increase in maintenance of equipment was also in turn due to improved equipment and the betterment of its character. The most gratifying thing is the generally improved conditions which seem to reflect themselves in the increased revenue derived from various sources.

Hon. Mr. STEVENS: Do you think that the West Indies steamship service is contributing anything to that?

Sir HENRY THORNTON: Well, not if you consider the aggregate. I do not know that I can say materially; it certainly is contributing something to it because you see the increase in revenue was \$2,600,000. I do not know just how much of that could be charged to the West Indies service. I should say the bulk of that increase was due to a general healthier business condition in the maritime provinces. What do you think, Colonel? Your opinion is, perhaps, even better than mine.

Mr. CANTLEY: I do not think I can find much fault with your statement in that respect.

Sir HENRY THORNTON: Unless there are some specific questions that someone wants to ask, that finishes it.

The CHAIRMAN: Any further questions on the general report?

Mr. CANTLEY: How much is the West Indies freight traffic contributing to your general traffic?

Sir HENRY THORNTON: The total amount of traffic moved through all ports is 324,000 tons. That much traffic accrued to the railway company by the operation of the West Indies service and the Canadian Government Merchant Marine. We moved last year 1,522,000 stems of bananas. Could anybody put that into tons?

Mr. ALLAN: It is approximately 51 pounds to a bunch.

Sir HENRY THORNTON: Thirty thousand tons.

Mr. JENKINS: How about grapefruit, Sir Henry? Is there much improvement in the quantity of grapefruit coming from the West Indies?

Sir HENRY THORNTON: There are not very many grapefruit coming in.

Mr. CANTLEY: What advantages do you suppose you are getting by sending those boats up the St. Lawrence?

Sir HENRY THORNTON: Well, you get a shorter rail haul, and generally it is a better proposition.

Mr. CANTLEY: Translated into money, what does it mean?

Sir HENRY THORNTON: I cannot answer that offhand, Colonel.

Mr. CANTLEY: Have you considered seriously those boats terminating at St. John and Halifax all the year around?

Sir HENRY THORNTON: We have not considered it seriously because we think the present arrangement is preferable, that is, terminating them at Montreal during the summer season.

Mr. CANTLEY: I would like to discuss that with you some other time, but I want to impress this on you: I think you are continuing those boats on the St. Lawrence much too late at the close of the season and sending them up too early in the season. The reason I say that is this: Friends of mine came up on the first trip on the St. Lawrence, from the West Indies, and in every case they contracted very severe colds.

Sir HENRY THORNTON: That relates, of course, to the passenger end of it which is, relatively, unimportant.

Mr. CANTLEY: But that has an important bearing if you want to popularize the service, as you want to do. No man wants to go down the St. Lawrence in November, and then go from there to the West Indies.

Sir HENRY THORNTON: We, of course, regard the freight service as the more important part of it, and we defer to that. From purely a passenger point of view I would not be at all surprised if there was something in what you say.

Hon. Mr. STEVENS: Do you call at Halifax?

Sir HENRY THORNTON: We go straight on.

Hon. Mr. STEVENS: You could in November.

Sir HENRY THORNTON: Probably, yes. We would not gain anything by it particularly.

The CHAIRMAN: Shall we go on to the Merchant Marine now?

Hon. Mr. STEVENS: Yes.

The CHAIRMAN: We will consider the balance sheet on page 6.

Mr. COOPER:

ASSETS		
INVESTMENTS:		
Vessels as at December 31st, 1928.....	\$61,246,348 78	
LESS: Net deductions during year.....	14,388,216 98	
	<hr/>	
	\$46,858,131 80	
Plant and Equipment.....	63,403 28	
Office Furniture and Fixtures.....	56,454 58	
Other.....	20,060 00	
	<hr/>	
		\$46,998,049 66
CURRENT:		
Cash in Banks.....	\$ 684,287 00	
Accounts Receivable.....	357,244 64	
Due by Agents.....	458,077 87	
Advances to Captains, Crews and Agents.....	73,235 47	
Inventories of Stores and Supplies.....	194,489 96	
	<hr/>	
		1,767,334 94
CANADIAN NATIONAL (WEST INDIES) S.S.—ADVANCE ACCOUNT.....		490,585 43
UNADJUSTED DEBITS.....		40,070 27
INSURANCE FUND.....		3,241,856 47
		<hr/>
		\$52,537,896 77

Mr. GEARY: Will you explain that item, "Canadian National (West Indies) S.S.—Advance Account."

Mr. COOPER: The operations of the two services are conducted by the same management, and we use a common cash box. Accounts receivable, or the current assets and liabilities are carried by the merchant marine services, and the charges for the West Indies are charged up to the advance account. The amount of \$490,000 odd represents the indebtedness of the West Indies company to the Merchant Marine company, and is largely made up of the deficit on the West Indies service for the year, which had not been repaid by the government to the Merchant Marine at the date of the balance sheet.

Mr. GEARY: Then you get a credit on this account when the government pays what it owes to the West Indies company?

Mr. COOPER: It is handled through the accounts of the merchant marine in the first place.

Mr. GEARY: Then you will get a credit against this for the deficit of the West Indies company?

Mr. COOPER: The government will advance the deficit to the West Indies company, and they in turn will pay that to the Merchant Marine and liquidate this amount.

Mr. GEARY: Is it not cumbersome doing things that way?

Mr. COOPER: It is more convenient.

Mr. GEARY: Who holds the stock of the West Indies company?

Mr. COOPER: The government.

Mr. GEARY: And who are your subsidiaries then of the Merchant Marine?

Mr. COOPER: They are the different ship companies. Each ship is incorporated as a separate subsidiary company. This is a consolidated balance sheet.

Mr. GEARY: And this embraces all the navigation of the Canadian National Railways system, does it?

Mr. COOPER: The balance sheet we are looking at now is the Canadian Government Merchant Marine. It does not include the West Indies vessels. There is a balance sheet of West Indies vessels on page 18.

Mr. CANTLEY: What is the average tonnage valuation of these vessels, amounting in all to \$61,000,000?

Sir HENRY THORNTON: The book valuation per ton about \$200.

Mr. CANTLEY: That is the original cost?

Sir HENRY THORNTON: That is what it represents on the books.

Mr. BLACK (Halifax): Is that the basis of this \$61,000,000?

Mr. COOPER: That is the original cost.

Mr. BLACK (Halifax): I suppose you know you sold two of the boats the other day for \$15 a ton.

Sir HENRY THORNTON: Quite right.

Mr. BLACK (Halifax): Do you think that is realizable for \$61,000,000?

Sir HENRY THORNTON: No, no.

Mr. BLACK (Halifax): Then why put it in?

Sir HENRY THORNTON: That is the way the books are made up. You have to carry it in the books in that way.

Mr. BLACK (Halifax): That is deceptive, Sir Henry.

Sir HENRY THORNTON: It would be more deceptive to do it otherwise. You could not get any set of accountants to give a certificate on any such method of bookkeeping as that.

Mr. BLACK (Halifax): Supposing it wound up and you put in your assets as \$61,000,000, and they realized not 10 per cent of that, where would you be?

Sir HENRY THORNTON: You would be all right. We would be delighted to write down the value of these ships to their present saleable value, but we cannot do that.

Mr. BLACK (Halifax): Although a business concern would present a statement of the actual value of their property.

Sir HENRY THORNTON: A business concern would not present a statement of that sort without being taken into court for fictitious presentation.

Mr. BLACK (Halifax): I would not like to have a connection with a concern that put in their assets a value of \$200 when they only cost \$15.

Sir HENRY THORNTON: That is what they cost originally, and you have got to put it in. If this committee will pass appropriate resolutions, permitting me to do so it won't be 24 hours before we will do it.

Hon. Mr. STEVENS: If you will note, Captain Black, you will see that it is all disclosed there. It is not hidden, it is disclosed.

The CHAIRMAN: On page 7. We will go on with the liabilities now.

Sir HENRY THORNTON: Perhaps it will be cleared up as you go through the liabilities.

Mr. GEARY: Your insurance fund, to the extent of \$3,000,000, is that cash or investments?

Sir HENRY THORNTON: That is invested in government securities and first-class securities.

Mr. GEARY: That is a real asset set aside.

Sir HENRY THORNTON: Oh, yes, it is absolutely apart from anything at all, and we add to it year by year. It has been built up in the same way that we built up the insurance reserve for the railway. The insurance reserve for the railway now, I think, represents about \$11,000,000, or maybe a little more, and that all is invested in certain bonds and first-class securities, and is kept apart from all the other securities and assets of the railway company. The same is true of this.

Mr. GEARY: You have got this amount charged to your assets, then you take a credit for the reserve that it represents?

Mr. COOPER: Yes. In case of a wind-up of the company the reserve would be a surplus.

Mr. GEARY: I do not quite make that up.

Sir HENRY THORNTON: If the company was wound up to-day you would find in the possession of the company securities to a marketable value of \$3,241,000.

Mr. BLACK (Halifax): In connection with this tonnage which represents \$61,000,000, the shrinkage in value per ton appears in this \$52,000,000.—the value per ton is this \$52,000,000.

Sir HENRY THORNTON: I think the answer to that is \$200 a ton. That is right, is it not, Mr. Cooper? We carry this in at the original value. That is an approximate figure, of course.

Mr. GEARY: That is what you get by dividing up?

Sir HENRY THORNTON: Yes.

Mr. BLACK (Halifax): Are the deficits of all these years included in this? You have made no profit for some years.

Mr. COOPER: No.

Mr. BLACK (Halifax): Is that loss included in this \$52,000,000?

Sir HENRY THORNTON: That is the loss, yes.

Mr. BLACK (Halifax): Then I am perfectly satisfied that I am right, that the value of this tonnage is put in at very much greater than it would realize.

Sir HENRY THORNTON: That is quite true.

Mr. BLACK (Halifax): In other words, the Merchant Marine has cost this country to date \$121,000,000.

Sir HENRY THORNTON: I do not know whether it would be \$121,000,000, but it would be a very, very large sum.

Hon. Mr. STEVENS: That is admitted, Mr. Black, years ago.

Mr. BLACK (Halifax): Well, it is a pretty expensive operation.

Sir HENRY THORNTON: Yes, I quite agree with you.

Mr. BLACK (Halifax): Better close it up.

Mr. GRAY: The United States lost money on their merchant marine.

Sir HENRY THORNTON: I think something like a billion dollars.

Mr. GEARY: The Merchant Marine was acquired during the course of the war, was it not?

Sir HENRY THORNTON: It was done as a result of war conditions, and the vessels were built at that time under war conditions.

Mr. GRAY: And for that purpose.

Sir HENRY THORNTON: And for a certain specific purpose. We have been doing the best we can with it.

Mr. BLACK (Halifax): A man stepped in there who knew nothing about the business. It was just a piece of ignorance.

Sir HENRY THORNTON: What individual are you referring to?

Mr. BLACK (Halifax): The Minister of Marine who carried it on. He is the man responsible.

Sir HENRY THORNTON: I thought you were referring to me.

Mr. BLACK (Halifax): No, sir.

Sir HENRY THORNTON: If so; it saw evidence of a pleasant discussion.

Mr. COOPER: Liabilities.

LIABILITIES		
CAPITAL STOCK:		
Authorized:		
10,000 Shares of \$100.00 each.....	\$ 1,000,000 00	
Issued:		
6,609 Shares of \$100.00 each.....	660,900 00	
LESS:		
Cancelled or held in Treasury in respect of Vessels disposed of—3,496 shares.....	349,600 00	
		311,300 00
DOMINION OF CANADA ACCOUNT:		
Notes Payable and Advances due Dominion Government (Secured by Mortgage on Vessels).....	\$46,538,225 44	
Other Advances by Dominion Government.....	11,991,856 27	
Interest Accrued to December 31st, 1929.....	25,782,322 41	
	\$84,312,404 12	
Balances Outstanding on Vessels Sold.....	100,000 00	
		84,412,404 12
ACCOUNTS PAYABLE.....		730,767 65
BALANCES OF UNCOMPLETED VOYAGES.....		281,264 31
UNADJUSTED CREDITS.....		20,971 30
ACCRUED DEPRECIATION—VESSELS.....		16,300,735 47
INSURANCE RESERVE.....		3,202,519 18
PROFIT AND LOSS—DEFICIT.....		52,722,065 26
CONTINGENT LIABILITIES—NONE ASCERTAINED		
J. M. ROSEVEAR,		\$52,537,896 77
General Comptroller.		

Sir HENRY THORNTON: Interest accrued to December 31, 1929, represents the money that the government has contributed to make up deficits and interest thereon.

Mr. COOPER: The interest is the amount accrued on the money advanced by the government to build the vessels and to pay the operating deficit.

Mr. GEARY: So that if you get cash in your current assets I suppose they are liquid.

Mr. COOPER: Oh, yes.

Mr. GEARY: And worth money, and which you could cash in from your assets,—all your assets deducted from what you owe the government is about how the thing will wind up.

Sir HENRY THORNTON: That is where you would get off.

Hon. Mr. STEVENS: It would represent what you could sell the vessels for plus your securities against insurance, reserve and depreciation reserve, that is what you would have. We might as well admit and face this fact, that when you come to wind this thing up and sell these vessels you will get mighty little out of it.

Sir HENRY THORNTON: All you will have is the scrap value and the insurance fund. One of the things I think the committee might want to express an opinion upon is the future policy with respect to the Merchant Marine.

Mr. CANTLEY: I gave you my opinion yesterday.

Hon. Mr. STEVENS: Is the railway at the present time experiencing benefits by way of increased traffic sufficient to warrant the paying of an \$800,000 deficit?

Sir HENRY THORNTON: As far as the railway is concerned, I should say. No. We get increased traffic amounting to something more than \$2,000,000 a year in round figures.

Hon. Mr. STEVENS: Which cost us last year \$800,000 in actual operating deficit?

Sir HENRY THORNTON: That is right.

Hon. Mr. STEVENS: And if we keep those ships for another year they will be worth that much less than they are to-day.

Mr. BLACK (Halifax): There is another feature to it, these ships are carrying merchandise to Boston and New York, and you are not carrying these goods to Montreal or any other Canadian port.

Sir HENRY THORNTON: As far as that is concerned, if we did not do that we would have still less.

Mr. BLACK (Halifax): That is quite true, but what I take exception to, and I think all Canadians should, is the fact of the taxpayers of Canada carrying cargoes to the United States, and at cut rates in many instances.

Sir HENRY THORNTON: The only reason is, as long as you have the ships it is better to move them with some freight in them than to move them empty.

Mr. GEARY: You do your own insuring, do you?

Sir HENRY THORNTON: Yes.

The CHAIRMAN: We might as well go on with the operating account, or pass it over and go to the West Indies service.

Mr. GEARY: We had better finish this.

Hon. Mr. STEVENS: Why do you include that \$100,000 balance outstanding on vessels in the Dominion of Canada account?

Mr. COOPER: Two vessels were sold to the Kingsley Navigation Company. There is \$100,000 due by that company, and in turn the amount is due to the minister, so that in the accounts receivable this item of \$357,000 on the asset side includes \$100,000 due to the company. The corresponding liability to the government is on the other side.

Sir HENRY THORNTON: If you did not do that and presented an account made up differently the chartered accountants would refuse to certify it.

Hon. Mr. STEVENS: It is included in the \$357,000 accounts receivable.

Mr. COOPER: Operating account for the year 1929, page 8:

	1929	1928
OPERATING REVENUE:		
Vessels—Closed Voyages.....	\$ 8,370,566 10	\$ 9,112,484 53
Commission.....	875 13	26 00
Total Revenue.....	\$ 8,371,441 23	\$ 9,112,510 53
OPERATING EXPENSES:		
Vessels—Closed Voyages.....	\$ 8,738,742 77	\$ 9,556,609 62
Miscellaneous Wharf Expenses.....	9,118 45	14,230 48
Operation of Agencies.....	175,051 97	169,917 83
Management and Office Salaries.....	220,610 42	379,671 22
Rent, Taxes and Insurance.....	8,044 69	15,434 85
Travelling Expenses.....	13,325 70	24,661 66
Printing and Stationery.....	7,404 65	15,509 92
Advertising.....	26,852 40	33,309 31
Postage, Cables and Telegrams.....	18,112 91	41,020 04
Office Supplies and Expenses.....	12,252 78	24,378 38
Miscellaneous Expenses.....	21,873 30	25,390 56
Interest and Exchange.....	1,041 60	21,459 68
Total Expenses.....	\$ 9,250,348 44	\$10,321,593 55
OPERATING LOSS FOR YEAR.....	\$ 878,907 21	\$ 1,209,083 02
OTHER CHARGES:		
Depreciation on Vessels.....	\$ 1,861,925 27	\$ 2,431,315 71
Interest on Government Notes and Advances.....	3,187,926 35	3,905,126 51
Total Loss.....	\$5,928,758 83	\$ 7,545,525 24

Mr. GEARY: Was that decreased because you had fewer vessels?

Sir HENRY THORNTON: No, it was due to the curtailment of some services and the abandonment of certain unprofitable services—partly what you say.

Mr. BLACK (*Halifax*): In management and office salaries, there is a saving over the previous year of \$150,000 in round figures. Is that in reduction of salaries? That is a very, very large sum.

Mr. COOPER: Is is not altogether a saving. It is due to the inauguration of the West Indies service. The management, of course, has to be divided as between the two services, and, therefore, a proportion in 1928 was charged—

Mr. BLACK (*Halifax*): And there is a deficit in the West Indies service?

Mr. COOPER: Yes.

Mr. GEARY: That lessening of your depreciation reserve is due to fewer vessels?

Mr. COOPER: Yes, sir.

Mr. GEARY: I think if you got rid of those vessels you may show a profit in the end.

Hon. Mr. STEVENS: I do not see that we can consider the question now of whether you are going to change your policy and sell right out; that is a question for the management and the government to decide.

Sir HENRY THORNTON: That is in one way or another the problem which will have to be faced and decided.

Hon. Mr. STEVENS: We are not in a position to determine that. You have got to consider two or three things. One would be the value of this service to the trade of the country generally, how the trade routes established by these vessels are to be taken care of by other lines; will it be to our advantage? Will it mean an increase in freight charges, and so forth? These are problems which would require a great deal of study, and we could talk them over for a week and get nowhere.

Sir HENRY THORNTON: All that Mr. Stevens has said is quite correct in my judgment.

The CHAIRMAN: Do you want to examine the West Indies service?

Mr. CANTLEY: You might be good enough to tell us, Sir Henry, what has been the outcome of the South American service?

Sir HENRY THORNTON: That has proved quite satisfactory. There were eleven boats with a net profit of \$23,271.

Hon. Mr. STEVENS: Before depreciation or interest.

Sir HENRY THORNTON: That is simply the difference between the gross revenue and the operating revenue.

Hon. Mr. STEVENS: That is before depreciation or interest?

Sir HENRY THORNTON: Yes.

Mr. CANTLEY: Is that the only service you made any money on?

Sir HENRY THORNTON: Not entirely. The services that were profitable were the inter-coastal services which netted practically \$88,000. The services that showed a profit were the inter-coastal, the New Zealand and the South American.

Mr. GEARY: How do you come to have some West Indies voyages here, Sir Henry? Are they repeated subsequently in the West Indies service, or were they run independently of the West Indies?

Mr. COOPER: The *Fisher*, the *Forester* and one or two other boats which were operated in the service until the new vessels were put in commission.

The CHAIRMAN: Do you want to consider the West Indies service now, page 18?

Hon. Mr. STEVENS: Yes.

Mr. COOPER: Operating account, page 20.

OPERATING REVENUE:

Closed Voyages.....	\$ 3,331,808 25
Commission.....	875 12
Total Revenue.....	\$ 3,332,683 37

OPERATING EXPENSES:

Closed Voyages.....	\$ 3,314,612 91
Miscellaneous Wharf Expenses.....	6,287 50
Management and Office Salaries.....	209,934 75
Rent, Taxes and Insurance.....	9,202 43
Travelling Expenses.....	22,965 46
Printing and Stationery.....	8,183 56
Advertising.....	32,064 22
Postage, Cables and Telegrams.....	28,005 81
Office Supplies and Expenses.....	18,796 44
Miscellaneous Expenses.....	16,333 11
Inauguration Expenses.....	113,647 06
Interest and Exchange.....	491 40

Total Expenses..... \$ 3,780,524 65

OPERATING LOSS FOR YEAR..... \$ 447,841 28

OTHER CHARGES:

Depreciation on Vessels.....	\$ 227,315 49
Interest on Notes and Advances.....	442,739 71

Total Loss..... \$ 1,117,896 48

Mr. CANTLEY: What rate of depreciation is charged?

Mr. COOPER: Three per cent.

Mr. GEARY: They were not all new vessels, were they?

Mr. COOPER: No, sir. The five Lady ships were new vessels. The other vessels were transferred from the Merchant Marine service.

Mr. GEARY: The West Indies voyages you told me about in the Merchant Marine were made by ships that are here in the list of West Indies ships.

Mr. COOPER: No, they were Merchant Marine ships which were temporarily engaged in the West Indies service.

Mr. GEARY: What will those ships do now?

Sir HENRY THORNTON: Some of them have been sold and others have been returned to their original service.

Hon. Mr. STEVENS: The \$9,633,000, that represents the actual cost of the twelve vessels?

Sir HENRY THORNTON: It means the actual cost of the five new boats and the reconstruction of three boats for auxiliary service in connection with the West Indies trade.

Hon. Mr. STEVENS: And the other three—how do you account for them?

Sir HENRY THORNTON: Which other three?

Hon. Mr. STEVENS: That only accounts for nine. Have you transferred the original cost from the Merchant Marine to this West Indies service?

Sir HENRY THORNTON: It represents, of course, the five Lady boats.

Mr. COOPER: The three vessels which were converted, and four other vessels which were not converted.

Hon. Mr. STEVENS: Have you put them in at a valuation or at cost?

Mr. COOPER: At a valuation.

Mr. GEARY: You took them out of the other service, did you?

Sir HENRY THORNTON: They were put in at their depreciated value. They were sold and they disappeared then from the government records.

Mr. MILNE: Did you get full cargoes of freight from the West Indies or are the cargoes very limited?

Sir HENRY THORNTON: Well, the banana trade has pretty well come up to expectations. True, of course, there have not been full cargoes every voyage, but in general the banana trade and the movement of bananas has been quite up to expectations.

Mr. MILNE: You have keen competition, I understand. Are rates on bananas fairly satisfactory?

Sir HENRY THORNTON: Well, no rate is ever satisfactory, but it is the best we can get out of it, if you know what I mean by that.

Mr. GEARY: Are the United Fruit going into Halifax too with bananas?

Sir HENRY THORNTON: They go into St. John. They brought into St. John last year 1,067,000 stems as against our 1,500,000 stems.

Moved by Mr. Stevens, seconded by Mr. Gray, that the annual report of the Canadian National Railway System be adopted, also that the eleventh annual report of the Canadian Government Merchant Marine Limited and first annual report of the Canadian National (West Indies) Steamships Limited be adopted.

Motion agreed to.

Sir HENRY THORNTON: The question of the carrying on of the Merchant Marine is under discussion now between the administration and the government, as Mr. Stevens suggested should be done.

The committee adjourned.

SESSION 1930

HOUSE OF COMMONS

SELECT STANDING COMMITTEE

ON

RAILWAYS AND SHIPPING

THIRD AND FINAL REPORT OF THE COMMITTEE

OTTAWA
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1930

REPORTS OF THE COMMITTEE

THIRD AND FINAL REPORT

FRIDAY, 16th May, 1930.

The Select Standing Committee on Railways and Shipping owned, operated and controlled by the Government beg leave to present the following as a Third and Final Report.

Your Committee, to whom was referred for consideration and for report to the House the estimates on the Canadian National Railways, the Canadian Government Merchant Marine, the Canadian National (West Indies) Services, and the Maritime Freight Rates Act requirements, held five meetings in the course of which it examined sundry witnesses, including:—

Sir Henry Thornton, K.B.E., Chairman of the Board and President, C.N.R.;
Hon. T. A. Crerar, Minister of Railways and Canals;
V. I. Smart, Deputy Minister of Railways and Canals;
S. J. Hungerford, Vice-President, Operation and Construction Departments, C.N.R.;
R. L. Burnap, Vice-President, Traffic Department, C.N.R.;
D. C. Grant, Vice-President, Finance Department, C.N.R.;
R. C. Vaughan, Vice-President, Purchases and Stores Department, C.N.R.;
W. D. Robb, Vice-President, Insurance, Colonization and Telegraph Departments, C.N.R.;
S. W. Fairweather, Director, Bureau of Economics, C.N.R.;
T. H. Cooper, General Auditor, C.N.R.;
H. T. Hazen, Assistant Chief Engineer, C.N.R.;
A. H. Allan, Assistant General Manager, C.N. Steamships;
J. P. Doherty, Traffic Manager, C.N. Steamships.

CANADIAN NATIONAL RAILWAYS

Your Committee has had under consideration Item 321 of the supplementary estimates, which provides for loans or guarantees of \$6,010,639.89 to the Canadian National Railway Company, being supplemental to item 336 of the estimates of 1929-30. Your Committee is of the opinion that this amount is necessary for the purposes of the Company and should be voted by this House.

Your Committee has also had under consideration Item 323 of the estimates, which provides for loans or guarantees of \$51,600,000 to the Canadian National Railway Company for the year ending December 31st, 1930. These estimates have, in accordance with the practice of the last two years, been prepared on the basis of the full calendar year to coincide with the railway fiscal year and avoids overlapping and the tendency to confusion which existed when the annual report of the railway was on the basis of the calendar year and the estimates on the basis of the federal fiscal year.

The annual report itself was divided into three sections as follows:—

1. That containing the result of operations of the Canadian National Railways exclusive of the Eastern Lines.
2. That containing the result of operations of the Eastern Lines as defined by the Maritime Freight Rates Act.

3. A summary showing the income account of the system as a whole including Eastern Lines.

Your Committee notes that the operating results for the year 1929 were not as favourable as those of the previous year, due almost entirely to the reduced crop in the Prairie Provinces and to marketing conditions. Another disturbing feature was the depreciation of values on the stock market and the resulting lethargy in business during the latter part of the year.

Your Committee was given a full explanation of the reorganization of the Central Vermont Railway, Incorporated, and of the consolidation of the properties formerly known as the Grand Trunk Western Lines. In view of the explanations given, your Committee is of the opinion that this amount is necessary for the purposes of the Company for the coming year and should be voted by this House.

CANADIAN GOVERNMENT MERCHANT MARINE

Your Committee has had under consideration Item 324 of the estimates,—loan to the Canadian National Steamships (Canadian Government Merchant Marine, Limited)—to be applied in payment of deficits in operation of the Company and of the vessels under the Company's control during the year ending December 31st, 1930, and capital requirements, amounting in all to \$400,000.

Your Committee examined the report of operations for the year ending December 31st, 1929, and notes that the results have been more favourable than those of the previous year, due to the discontinuance of certain unprofitable routes.

Your Committee also reviewed the balance sheet of the Company and is of the opinion that the amount of \$400,000, included under Item 324 of the estimates, is required for the purposes of the Company and should be granted by this House.

CANADIAN NATIONAL (WEST INDIES) SERVICES

Your Committee had under consideration Item 325, loan to the Canadian National (West Indies) Steamships, Limited whose steamships provide the services called for by the West Indies Trade Agreement.

Your Committee notes that the operations for the year ending December 31st, 1929, resulted in an operating loss of \$447,841.28, which being the first year's operations are as satisfactory as could be anticipated.

Your Committee is of the opinion that the amount asked—\$870,000—is necessary for the requirements of this service in accordance with treaty obligations and should be voted.

MARITIME FREIGHT RATES ACT

Your Committee has had under consideration Item 322 of the further supplementary estimates 1929-30—\$627,390.34—being supplemental to Item 340 of the estimates of 1929-30. Your Committee is of the opinion that this amount is necessary and should be voted by this House.

Your Committee has also had under consideration Item 327 of the estimates, to provide for the payment to the Canadian National Railway Company, as required by the Maritime Freight Rates Act, of the deficit in receipts and revenues, incurred during 1930, on Eastern Lines, the amount of the estimated deficit being \$4,750,000, and in addition a sum of \$2,450,000, representing the estimated amount by which the revenues of the Eastern Lines will be lessened during the coming year by the reduced rates granted under the Maritime Freight Rates Act in accordance with the recommendations of the Duncan Commission.

By reason of the special considerations involved in the Maritime Railway situation, with which the House is familiar, your Commission is of the opinion that these amounts are necessary to give effect to the Maritime Freight Rates Act in the operation of the Eastern Lines, and should be granted by this House.

Your Committee has also had under consideration Item 326, to provide the sum of \$1,000,000 from which privately owned railways operating in territory covered by the Maritime Freight Rates Act shall be reimbursed the difference between normal tolls and the special tolls provided by that Act. Your Committee is of the opinion that this amount is necessary to implement the provisions of the Act in that regard and should be granted by this House.

BILL 130

Your Committee to whom was referred Bill 130, "An Act respecting the Canadian National Railways, and to provide for the refunding of certain maturing financial obligations," have taken the said Bill under consideration and have agreed to report the same without amendment.

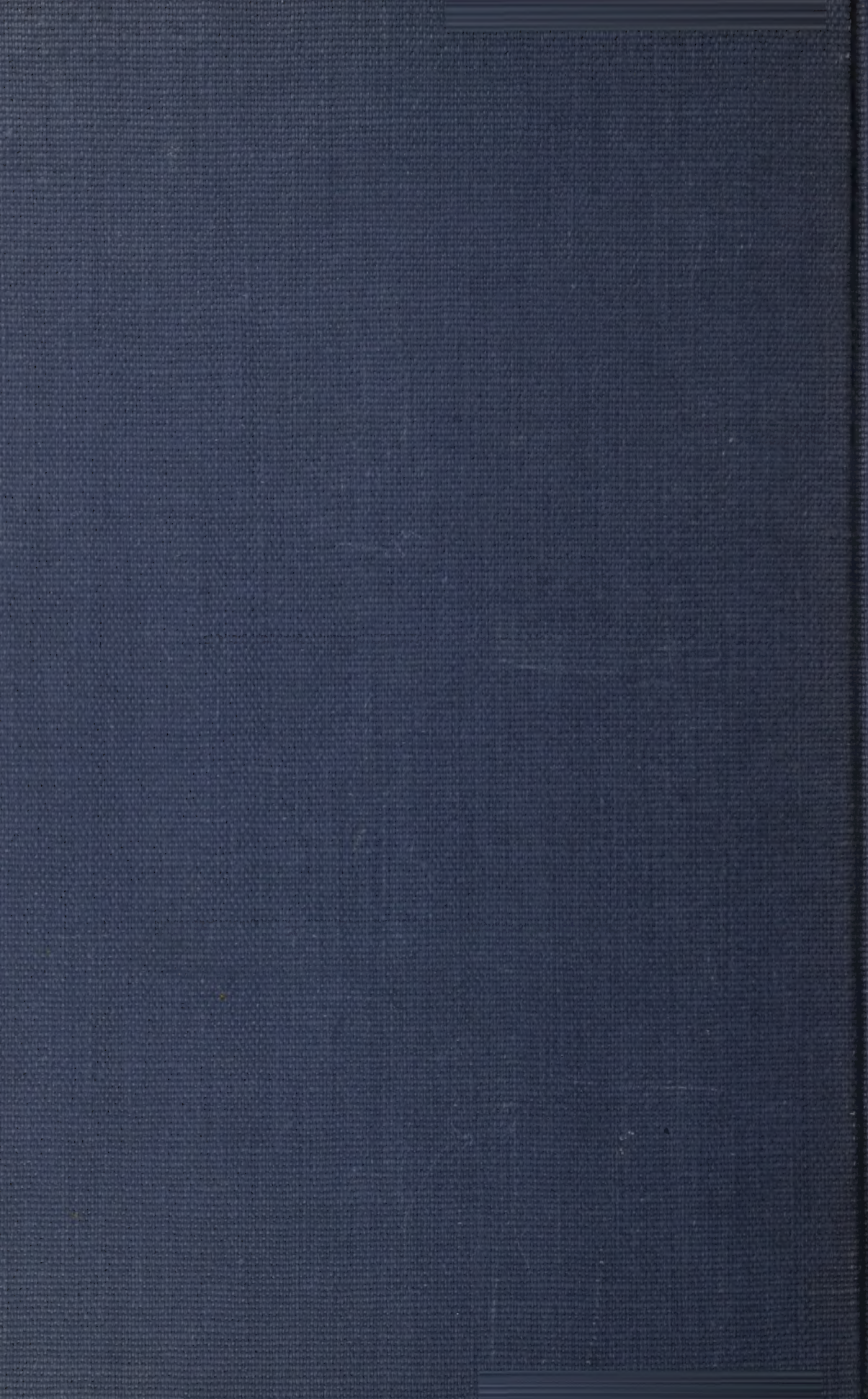
BILL 131

Your Committee to whom was referred Bill 131, "An Act respecting the Canadian National Railways, and to provide for certain financing in connection with certain lines of railway located principally in the State of Vermont," have taken the said Bill under consideration and have agreed to report the same without amendment.

A copy of the evidence taken by your Committee is appended.

All of which is respectfully submitted.

EUGENE FISET,
Chairman.





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